

TASK FORCE REPORT ON
THE DEPARTMENT OF AGRICULTURE

(Draft Report)

THE PRESIDENT'S PRIVATE SECTOR SURVEY
ON COST CONTROL

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE



JULY 1983

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry
For sale by the Superintendent of Documents, U.S. Government Printing Office Washington, D.C. 20402

U.S. GOVERNMENT PRINTING OFFICE

23-033 O

WASHINGTON : 1983

5162-5

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

JESSE HELMS, North Carolina, *Chairman*

BOB DOLE, Kansas

RICHARD G. LUGAR, Indiana

THAD COCHRAN, Mississippi

RUDY BOSCHWITZ, Minnesota

ROGER W. JEPSEN, Iowa

PAULA HAWKINS, Florida

MARK ANDREWS, North Dakota

PETE WILSON, California

ORRIN G. HATCH, Utah

WALTER D. HUDDLESTON, Kentucky

PATRICK J. LEAHY, Vermont

EDWARD ZORINSKY, Nebraska

JOHN MELCHER, Montana

DAVID H. PRYOR, Arkansas

DAVID L. BOREN, Oklahoma

ALAN J. DIXON, Illinois

HOWELL HEFLIN, Alabama

GEORGE S. DUNLOP, *Chief of Staff*

J. ROBERT FRANKS, *General Counsel*

CARL P. ROSE, *General Counsel and Staff Director for the Minority*



THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

April 5, 1983

The Honorable Jesse A. Helms
Chairman
Committee on Agriculture
U. S. Senate
Washington, D. C. 20510

Dear Mr. Chairman:

I enclose a copy of the Department of Agriculture Task Force Report which is being placed in the Commerce Department's Central Reference and Records Inspection Facility, Room 6628 in the Hoover Building, today for inspection by the public and the press. This Report, along with five other Task Force Reports, will be reviewed and considered on April 15th by the Subcommittee of the Executive Committee of the President's Private Sector Survey on Cost Control.

This meeting was called pursuant to a notice filed in the Federal Register on April 1st.

Copies of this Report are being furnished to the White House which, in turn, will furnish them to the appropriate Executive Departments and Agencies.

At this time we have no way of knowing, of course, which of the recommendations contained in this Report will be approved by the Subcommittee. After the meeting of the Subcommittee on April 15th, we will inform you, the White House, and the appropriate Agencies of the final decision of the Subcommittee.

We felt you would like a copy of the enclosed Report at the earliest possible time and we are sending you a copy to assist you and your staff in reviewing it.

Sincerely yours,

Felix E. Larkin

Enclosure

1850 K Street, N.W. • Suite 1150 • Washington, D.C. 20006
(202) 466-5170

(III)

FOREWORD

Probably one of the most frequent comments I hear from citizens in their commentary on Government is that Government agencies and programs should be run "more like a business", using the same sound principles of management that are employed in U.S. businesses, large and small.

In 1982, President Reagan established a panel of businessmen to examine many facets of Federal agencies and their programs in order to make comprehensive recommendations for improvement. Task Forces were set up to evaluate specific areas and issue reports on their recommendations. Thusfar, during 1983, these various reports on individual agencies have been released in their preliminary form. Final recommendations will follow. Additionally, further reports on other agencies not yet released also will be forthcoming.

The Task Force that examined the Department of Agriculture has already presented its preliminary findings. I believe that Senators will find the proposed changes of immense value, both now and in future consideration of Agriculture Department policies and practices. Because of its value, I believe it worthwhile to have the preliminary report printed to be available for Committee members and others interested in the recommendations.

(It should be noted that additional recommendations regarding the food stamp program are contained in a separate Task Force report on Low Income Standards and Benefits. This report was submitted May 26, 1983.)

Many of the recommendations are administrative in nature and can be implemented fairly quickly and easily by the Secretary of Agriculture. Others will require changes in legislation.

The programs were scrutinized carefully with an eye toward cost-benefit analysis, one of the foremost management tools of American business. The resulting recommendations sometimes produce relatively small budget savings; at other times hundreds of millions of dollars may be saved from just one specific recommendation.

Indeed, the cumulative savings resulting from the Task Force recommendations are estimated to be \$13 billion over the next 3 years, an annual savings of 10 percent of the total USDA budget. This does not include savings from modification of crop price-support procedures. An additional \$13 billion, for a total of \$26 billion, could be saved during the next 3 years from the implementation of these recommendations. Any study which offers concrete proposals for achieving savings in programs and improving their management without doing damage to the fundamentals of those programs, as this study purports to do, deserves careful consideration.

These proposals are thus all the more important because of the widespread concerns about the large Federal budget deficits that have been projected in this and future fiscal years. In the context of the overall Federal budget, these recommendations take on even greater significance.

The recommendations affecting farm programs are especially relevant for consideration in anticipation of the next farm bill. While such consideration is almost 2 years away, it is clear that U.S. farm policy is at an important crossroads. These proposals take on a special significance in view of these upcoming deliberations.

The proposals serve a very useful function in focusing attention on areas within the Department of Agriculture where improvements can be made. Senators and others interested in Agriculture policy will want to consider these recommendations carefully. Obviously, there will be differences about whether certain recommendations are worthy of adoption, or even whether they would, in fact, improve either management of the programs or the costs associated with them. Not all members of the Committee, including the Chairman, will agree with every proposal, but I think we can agree that a conscientious effort has been undertaken.

I commend the members of the Task Force who worked on these proposals for the significant contribution which they have made to the development of future policy within the Department of Agriculture.

Jesse Helms, Chairman

(Note: Appendices referred to in the text have not been included in this Committee print. They are available for review in the Department of Commerce Central Reference and Records Inspection Facility, Room 6628 in the Hoover Building, Washington, D.C.)

LETTER OF TRANSMITTAL

April 4, 1983

Mr. J. Peter Grace
Chairman, Executive Committee
President's Private Sector Survey
on Cost Control in the Federal Government

Dear Mr. Chairman:

The following report and supporting appendix represents the results of the Agriculture Task Force of the President's Private Sector Survey on Cost Control in the Federal Government. The report culminates the combined efforts of over 30 members of the task force, who devoted about 92 person-months of work to the PPSS initiative. In addition, these members, representing 24 private sector companies, reviewed the Department of Agriculture activities during the period June through November, 1982.

The report contains proposed major recommendations which, when fully implemented, could result in three year total cost savings and revenue generation of \$13.0 billion and first year cost savings of \$3.8 billion. In addition, it should be noted, however, that some of the recommendations may require several years for the full savings to be realized. While all facets of the Department of Agriculture could not be surveyed in the time allotted, areas selected for review were considered to offer significant potential for cost savings and/or other benefits.

Clearly, other opportunities for improvement exist, but due to limited time and personnel resources available, they could not be pursued. We believe you and the other members of the Executive Committee will find our recommendations to be constructive, well documented and well supported, despite the inherent time constraints that an effort such as PPSSCC faces, and we urge their adoption by the Executive Committee.

Because the benefits derived from agricultural programs and policies are important to our society, it was the inten-

tion of this task force to suggest approaches and practices that will enable the Federal Government to more effectively carry out its policies and programs.

Should you, the other members of the Executive Committee, or the Survey Management Office have any questions, please do not hesitate to contact us, the Project Manager, or the individual members of the task force.

William B. Graham

William Wood Prince

(VIII)

PREFACE

On June 30, 1982, President Reagan signed Executive Order 12369 formally establishing the President's Private Sector Survey on Cost Control (PPSSCC) in the Executive Branch of the Federal Government. An Executive Committee under the chairmanship of J. Peter Grace was established, consisting of 163 high-level private sector executives--mostly chairmen and chief executive officers--from many of the nation's leading corporations.

Briefly stated, the President directed the PPSSCC to:

- * Identify opportunities for increased efficiency and reduced costs achievable by executive action or legislation.
- * Determine areas where managerial accountability can be enhanced and administrative controls improved.
- * Suggest short- and long-term managerial operating improvements.
- * Specify areas where further study can be justified by potential savings.
- * Provide information and data relating to governmental expenditures, indebtedness, and personnel management.

The Executive Order also provided that "the Committee is to be funded, staffed and equipped . . . by the private sector without cost to the Federal Government." To implement this objective, the Foundation for the President's Private Sector Survey on Cost Control was established. It formed a Management Office which organized thirty-six "task forces," each co-chaired by two or more members of the Executive Committee, to do the "preliminary reports." These are listed below:

Agriculture; Air Force; Army; Automated Data Processing/Office Automation; Boards/Commissions-Banking; Boards/Commissions-Business Related; Commerce; Defense-Office of Secretary; Education; Energy (including Federal Energy Regulatory Commission and Nuclear Regulatory

Commission); Environmental Protection Agency/ Small Business Administration/Federal Emergency Management Agency; Federal Construction Management; Federal Feeding; Federal Management Process; Financial Asset Management; Health & Human Services-Department Management/Human Development Services/ACTION; Health & Human Services-Public Health Service/Health Care Financing Admin.; Health & Human Services-Social Security Admin.; Hospital Management/Veterans Admin. (Hospitals); Housing & Urban Development; Interior; Justice; Labor; Land, Facilities, and Personal Property Management; Low Income Standards and Benefits; Navy; Personnel Management; Privatization; Procurement/Contracts/Inventory Management; Real Property Management; Research and Development (National Science Foundation/National Aeronautics & Space Admin.); State/USIA; Transportation; Treasury; User Charges; and Veterans Administration.

Twenty-two of these task forces were assigned to study specific departments and agencies, and the remaining fourteen studied functions cutting across government such as personnel, data processing and procurement. Apart from the co-chairpersons, none of the task force members were members of the Executive Committee, nor did the task forces have any authority to make recommendations to departments and agencies or to the President.

Each of the 36 task forces prepared a draft report. This is one such task force report. Each, with a few exceptions, also prepared an appendix providing more detailed information supporting the tentative recommendations contained in the task force report. Those appendices are on file at the Department of Commerce's Central Reference and Records Inspection Facility. It should be noted that tentative recommendations relating to any one Federal agency may be included not only in the appropriate agency task force report but also in the reports of the functional cross-cutting task forces.

All of the task force draft reports will be considered and acted upon in meetings open to the public by a Subcommittee of the Executive Committee of PPSSCC, along with other statements and recommendations. Accordingly, all tentative recommendations contained in this task force report are subject to possible changes resulting from the Subcommittee's deliberations.

It is important to note that cost savings, revenue generation, and cash acceleration opportunities in this draft report may duplicate similar dollar opportunities reported in other task force reports. Thus, there may be instances of double counting of dollar opportunities between task force reports. These duplications will be netted-out

XI

in the Final Summary Report to the President. Additionally, dollar estimates in this draft report are based on reasonable and defensible assumptions, including standard three-year projections based on first, second and third year assumptions and not the specific fiscal year in which partial or full implementation will occur. Accordingly, estimated savings or revenue opportunities are understandably of a "planning" quality and not of a "budget" quality. Therefore, the reader should guard against drawing conclusions or making dollar projections based on the disclosures contained only in this draft report.

Following action upon all of the task force reports, the Executive Committee will adopt a Final Summary Report to the President, summarizing the scope of its individual task force recommendations and offering general conclusions and advice. This Summary Report is tentatively scheduled for release on or about June 30, 1983.

EXECUTIVE SUMMARY

The Agriculture Task Force's recommendations for the United States Department of Agriculture (USDA) include savings of \$3.8 billion for the first year put into effect and a total of \$13.0 billion for three years. This would mean a more than 10 percent reduction in annual outlays if implemented. In addition to budget savings, over \$8 billion of Government lending would be transferred to the private sector over the next few years, reducing the Government's risk of losses and easing its need to enter credit markets.

The USDA covers a broad range of functions. It assists farmers in a number of ways which include providing research, credit, services, insurance, price supports, production and market information, and marketing assistance. The Department provides consumers with nutritional information, regulations on safety and health, and food for low-income people. It manages the National Forests and the financing of many rural activities.

Outlays for the Department in 1982 were \$36.2 billion, with \$9.5 billion off-budget. Estimates for 1983 were \$45.0 billion, with \$10.2 billion off-budget; and for 1984, estimates are \$35.0 billion, with \$5.8 billion off-budget. The Department has 112,000 employees.

Included in these first-year recommendations are \$1.1 billion that can be implemented by the Administration, \$474 million that can be implemented by Executive Order, and \$2.2 billion that require Congressional approval. The Task Force addressed 58 issues.

Agricultural Task Force Total Savings

Functional Area	Savings	(\$ million)
	1st Year	3 Years
Food and Nutrition Service	\$2,037	\$6,741
Farmers Home Administration	481	1,593
Foreign and Domestic Commodity Programs	559	1,938

Forest Service	379	1,440
Rural Electrification		
Administration	44	145
Other	298	1,140
<u>Authority</u>		
Agency authority	1,090	3,834
Executive authority	474	1,769
Congressional authority	<u>2,234</u>	<u>7,394</u>
 Total savings	 \$3,798	 \$12,997

Although not included in our savings estimates an additional \$4 billion in annual savings, and \$13 billion over three years, could be achieved by modifying crop price-support procedures.

Food and Nutrition Service (FNS)

Food and Nutrition Service (FNS) expenditures account for over 50 percent of USDA's budget. Congress has specified many details in the operations that prevent the program from changing as economic changes occur, or has authorized programs that overlap without eliminating the duplication.

The Task Force estimated savings of over \$2.0 billion in the first year and over \$6.7 billion in the first three years that will come primarily from two areas:

1. Updating the Thrifty Food Plan (TFP) and economies-of-scale adjustments used in food stamp allotment determination (\$1.3 billion the first year and \$4.3 billion in three-year savings):

The base food stamp household, as specified by law, is composed of a man, a woman, and 2 children. Current participant households are not actually a family of four but average 2.6 persons per household, with a high percentage of women and children. Economies-of-scale adjustments to reflect the more efficient purchase and use of food in larger households appear, on the basis of current data, to be overly generous for small households and to unfairly penalize larger households. Task Force recommendations would use more current data in setting food stamp allotment standards and modifying economies-of-scale adjustments. If household food-stamp needs were weighted by the current composition of all participants with the TFP concept still used as the base, \$1.40 billion could be saved in the first year. Modifying the economies-of-scale adjustments would save \$252 million in the first year after providing increases to larger participant households.

2. Reducing the overlap between certain child nutrition benefits and food stamp benefits (\$0.7 billion the first year and \$2.3 billion in three-year savings):

Currently, most children in households receiving food stamps also qualify for School Lunch Benefits and Child Nutrition programs. Recognizing the special importance of child nutrition, the Task Force proposes eliminating only 30 percent of the duplication in food benefits by counting the value received in School Lunch and Child Nutrition programs as income in food-stamp determination, in the same way that other welfare payments are already counted as income.

Farmers Home Administration (FmHA)

Over the past 10 to 15 years, the Farmers Home Administration (FmHA) has shown exponential growth in numbers of borrowers and loans outstanding. In addition, Congress has substantially expanded the number of programs the Agency administers and the constituencies it serves. As of June 30, 1982, approximately \$55.4 billion was outstanding to 1.5 million borrowers, compared with only \$6.5 billion to 447,000 borrowers in 1970. Further, more than 55 percent of the Agency's outstanding loans are to nonfarm borrowers, who constitute approximately 70 percent of the total number of borrowers.

Such growth and diversification have prevented FmHA from adequately meeting the needs of farmers and have contributed to an overall delinquency rate of 43 percent in the farm loan programs (\$10.2 billion to 122,000 borrowers). Major, immediate, and dramatic changes are obviously required to prevent huge losses in the near future.

1. Task Force estimated savings of \$481 million in the first year and \$1.6 billion in the first three years come largely from one area: Improving the quality of loans and the performance of loan supervision (\$421 million the first year and \$1.4 billion in three-year savings).

Although FmHA's lending and credit assistance expertise is in farm loans, a significant portion of its loan portfolio is in housing loans and business or community development loans. If housing loans were transferred to the Department of Housing and Urban Development (HUD) and business/development loans were transferred to the Small Business Administration (SBA), which agencies, in turn, would transfer their farm loans to FmHA, the better alignment of loan type with lending expertise should permit FmHA to reduce the current 43 percent delinquency rate on farm loans and save about \$34 million in the first year. More

aggressive pursuit of the Department's policy of graduating FmHA loans into nongovernment loans, along with the development of management information needed to support both such graduation and improved credit supervision, are expected to save about \$251 million in the first year. Finally, putting a greater burden for loan quality and payment performance on the private sector should save about \$136 million in the first year in both reduced loan processing costs and further delinquency reductions. This would be accomplished by following the lead of other Government lending Agencies in shifting from direct Government loans to guarantees of private sector loans, reducing the current guarantee level from 90 percent to 75 percent (so as to put more onus on private sector lenders for loan performance) and establishing a Certified Lender Program, as is done by SBA.

Foreign and Domestic Commodity Programs

Current farm price support programs have induced record production and stocks at a time of stagnant domestic and world demand. They have weakened the U.S. farmer's competitive position, preferentially diminished the viability of the family-owned farm, and committed funds well beyond those projected. The Task Force estimates the costs for FY 1983 at \$10.2 billion and for FY 1984 at \$8.8 billion -- some \$6.5 billion more than estimated by USDA and \$11.7 billion more than estimated by the Congressional Budget Office.

The Task Force suggests the elimination of target prices and deficiency payments, and the reduction of price supports to the average variable costs of production as issues for further development. Competing countries would be forced to adjust to market conditions rather than to high U.S. support prices. These actions would save from \$4 to \$6 billion per year and make U.S. farmers again dominant in world markets. Note that these savings are not included in the Task Force total because much time and debate will take place before there is material change. Present proposals are only stopgap remedies; long-term solutions are needed.

Proposed savings, excluding the price support issue, total \$559 million in the first year and \$1.9 billion in the first three years. These savings come primarily from a proposal to eliminate Department donations of commodities to other Government Agencies. Rather, these agencies should be required to pay from controlled budgets for the commodities they need. Aligning responsibility for effective use of commodities with the authority to use them should result in a significant reduction of what is now an uncontrolled giveaway program, and save about \$364 million in the first year. Further savings of about \$108 million in the first year could be obtained by eliminating the requirement that 50

percent of P.L. 480 commodity shipments be on U.S. flag vessels. This cargo-preference requirement has not kept the U.S. fleet, whose average age is 17 years, modern.

Forest Service (FS)

The Forest Service has 190 million acres and over 42,000 employees, yet posts losses of \$1 billion per year. It is evident that either revenue needs to be increased, or costs reduced. The Task Force recommends both, for a first-year savings of \$379 million and three-year savings of \$1.4 billion.

Revenue increases of \$267 million in the first year and \$862 million in the first three years could be achieved by changing payment schedules for timber sales, improving timber appraisal methods, increasing recreation fees, charging for firewood, and increasing grazing fees.

Costs could be decreased by \$112 million in the first year and \$578 million in the first three years by reducing staffing levels, changing the road building program, improving the data processing planning process, and restructuring research activities. Savings, after absorbing \$45 million in implementation costs, are assumed to occur in the first year.

Rural Electrification Administration (REA)

Electricity and telephones are now available to 99 percent of rural America. The Rural Electrification Administration (REA) is still making low-interest distribution loans and providing detailed regulations on what borrowers do. It has made power-generation loans that have over-runs and are located in surplus power areas.

Savings or cost avoidance of \$44 million in one year, or \$145 million for three years, could be realized if Congress enacts the Task Force recommendations. About \$3 to \$4 billion in Government borrowing would be shifted to the private sector over the next three years.

Generation and transmission loans should be limited to those already committed and those that can be fully justified by detailed study of need. Present borrowers, when financial standards are met, should use more nongovernmental funds. These funds are available at private competitive rates. In addition, REA should reduce borrower regulations to be more in line with credit supervision rather than supervision of operations.

Other Savings

Several relatively small but important cost-saving opportunities are proposed by the Task Force, yielding an estimated \$298 million in the first year and \$1.1 billion in the first three years. These savings include eliminating duplication in meat, poultry, and dairy inspection requirements, where necessary modern-day information is available to ensure continued consumer protection, for a first-year saving of \$103 million and \$341 million in the first three years. Several recommendations aimed at providing equal or better service to the farmer through the county office organization are expected to save \$61 million in the first year and \$308 million in the first three years. Finally, improvements in the focus and administrative support of USDA research are expected to yield \$131 million in savings in the first year and \$482 million in the first three years.

Scope

While the principal focus of the Task Force's effort was aimed at management and administrative operations at the Department of Agriculture, concerns about the end result of those operations necessarily led the Task Force, in certain instances, to consider inefficiency and duplication in the underlying policies and programs giving rise to those operations.

THE REPORT RECOMMENDATIONS -- A PERSPECTIVE

It is vitally important that the recommendations in this Task Force Report be placed in perspective. They are the product of an unprecedented and wide-ranging survey that was performed in a politically-charged atmosphere by private sector executives and specialists whose services were volunteered -- often on a part-time basis. This staff had the formidable task of bringing their expertise to bear on largely unfamiliar and complex Federal operations in the short span of a few months. Frequently, these efforts were expended while holding down other full or part-time employment.

Despite these difficult and perplexing challenges -- all of which were anticipated at the onset -- a great deal of valuable work was performed. The recommendations contained in this Report, if implemented, will result in real and significant savings and other benefits to American taxpayers whose hard work and personal sacrifices foot the bill for these Federal programs and operations.

We have sought to be realistic about the recommendations reported. The great majority of them, we believe, are fully substantiated. However, it would be misleading for us to leave the impression that each and every recommendation is rooted in a uniformly high level of research, analysis, and substantiation. The press of time, other business commitments, lack of adequate resources, and other constraints did not always permit the luxury of achieving this desired uniformity.

As a result, and to promote a realistic expectation of recommendations reported, we have evaluated the "supportability" of the recommendations on their management merits and have grouped them into three categories.

- * Category I -- Fully substantiated and defensible. Recommendations in this category are, in the opinion of the Task Force convincing and deserving of prompt implementation.

- * Category II -- Substantially documented and supportable. Recommendations in this category may not be fully rationalized or documented in the Report, but all indications point to the desirability and defensibility of proceeding with their implementation.
- * Category III -- Potentially justifiable and supportable. Recommendations in this category, while meritorious, are not regarded as fully supported in the Report, due to time, personnel resources, and other constraints, but are deemed worthy of further analysis to determine the full extent of their merit for implementation.

This category descriptors do not take into account political, social or economic conditions which may alter the supportability for implementing these recommendations. Accordingly, by grouping the recommendations along the above categories, it is possible to assess more effectively the cost savings that can be expected. This analysis permits summary estimates of: (1) firm, (2) probable, and (3) potential savings opportunities, while recognizing that the proposed savings dollars themselves are of a "planning estimate" quality (i.e., generally statistically derived) and not yet of a "budget quality."

The Report Recommendations -- An Assessment

Based on the above perspective and categorization, an assessment of the reported recommendations is contained in the following matrix:

Category/3-Year Savings (S)/ Revenue Opportunities (R) (continued) (\$ millions)		
I	II	III

Farmers Home Administration

AG 1: Match new loans with a graduation of existing loans	\$ 768(S)	\$--	\$--
AG 2: Improve management information		63(S)	

	Category/3-Year Savings (S)/ Revenue Opportunities (R) (continued) (\$ millions)		
	I	II	III
AG 3: Shift from direct lending to 75 percent guarantee of private loans	\$ 451(S)	\$--	\$--
AG 4: Transfer housing loans to HUD			105(S)
AG 5: Transfer FmHA community development loans to SBA and SBA farm loans to FmHA	7(S)		
AG 6: Invest supervised bank accounts in interest-bearing accounts		119(S)	
AG 7: Decrease float in handling of receipts	57(S)		
AG 8: Collect \$15 fee for credit reports	23(R)		
<u>Food and Nutrition Service</u>			
AG 9: Update the food stamp base households in the Thrifty Food Plan standard	3,442(S)		
AG 10: Update economies-of-scale factors used in food stamp determination		834(S)	
AG 11: Eliminate \$10 minimum monthly food stamp benefit; provide amount calculated in food stamp formula		139(S)	
AG 12: Reduce food stamp printing costs	30(S)		
AG 13: Reduce food stamp/school lunch overlap by counting free school lunch benefits as income in food stamp determination for households in both programs	1,724(S)		

Category/3-Year Savings (S)/
Revenue Opportunities (R)
(continued)
(\$ millions)

	I	II	III
AG 14: Reduce food stamp/ child nutrition overlap by counting Federally financed child nutrition benefits as income in food stamp deter- mination for households in both programs	\$--	\$536(S)	\$--
AG 15: Reduce costs of commodi- ty storage and distribution			36(S)

Agricultural Marketing Service

AG 16: Reduce poultry inspec- tion requirements consistent with adequacy of quality con- trol data	308(S)	
AG 17: Use discretion in intensity of meat inspection		28(S)
AG 18: Eliminate triple inspection of dairy plants; have one inspector	5(S)	
AG 19: Revise label approval process	4(S)	
AG 20: Assess user fees for technical assistance services	5(R)	

Foreign and Domestic Commodity
Programs

AG 21: Revise price support program	13,000(S)*
--	------------

*Not included in totals. See Executive Summary.

AG 22: Require recipient departments to budget and pay for USDA commodities they use	1,205
---	-------

	Category/3-Year Savings (S)/ Revenue Opportunities (R) (continued) (\$ millions)		
	I	II	III
AG 23: Provide better method of export financing vs. interest buydown program	\$ 262	\$--	\$--
AG 24: Phase-out cooperator funding for established cooperators			37(S)
AG 25: Eliminate cargo preference requirement on certain commodity shipments	357(S)		
AG 26: Administer ocean freight differentials more efficiently	40(S)		
AG 27: Transfer USDA freight forwarding activity to private sector or sponsoring agency	8(S)		
AG 28: Disband Ocean Transportation Division of USDA	2(S)		
AG 29: Eliminate duplication among Economic Research Service, Foreign Agricultural Service and World Agricultural Outlook Board	22(S)		
AG 30: Reorganize Foreign Agricultural Service European representation			4(S)
AG 31: Reduce use of U.S. national secretaries in overseas post			1(S)
AG 32: Reorganize Agricultural Attache Service to improve efficiency	0		
AG 33: Improve analysis of export credit requests to reduce future risks	0		

XXIV

Category/3-Year Savings (S)/
Revenue Opportunities (R)
(continued)
(\$ millions)

I II III

AG 34: Make more effective use
of export promotion funds as
funding for certain interest-
free loans

\$ 0 \$-- \$--

Local USDA Programs

AG 35: Consolidate and colo-
cate various USDA county
offices

194(S)

AG 36: Accelerate county
office automation plans

3(S)

AG 37: Improve soil survey
process

50(S)

AG 38: Establish user fee of
\$25 per copy for soil survey
reports

21(R)

AG 39: Consolidate Soil
Conservation Service admini-
strative staffs

14(S)

AG 40: Streamline county
election process

26(S)

Forest service

AG 41: Revise schedule of
timber purchaser payments

460(S)

AG 42: Use transaction method
for timber appraisals

99(R)

AG 43: Adopt lump-sum sales
payment for timber purchases

54(R)

AG 44: Increase various
recreation fees

125(R)

AG 45: Charge for firewood now
given away

66(R)

Category/3-Year Savings (S)/
Revenue Opportunities (R)
(continued)
(\$ millions)

I II III

AG 46: Increase fees for
grazing cattle on public
lands \$ 58(R) \$-- \$--

AG 47: Reduce road construc- 172(S)
tion and maintenance costs

AG 48: Improve automatic data 43(S)
processing planning

AG 49: Improve research 24(S)
activities

AG 50: Reduce staffing levels 339(S)
by improved efficiency

Science and Education Administration

AG 51: Establish National Re- 251(S)
search Board and realign
regions

AG 52: Reduce administrative 83(S)
support of Agricultural Re-
search Service by reorganiza-
tion and consolidation

AG 53: Transfer selected human 99(S)
nutrition research programs
to HHS

AG 54: Eliminate 8 percent 36(S)
contribution to funding of 20
low-priority research pro-
grams that can be funded by
other than Federal sources

AG 55: Redirect Cooperative 13(S)
Extension Service staff to-
ward initiating new programs

Rural Electrification Administration

AG 56: Begin extracting the 10(S)
Government from REA Genera-
tion and Transmission loans

XXVI

Category/3-Year Savings (S)/
Revenue Opportunities (R)
(continued)
(\$ millions)

	I	II	III
AG 57: Expand use of private sector financing by REA distribution borrowers	\$ 132(S)	\$--	\$--
AG 58: Reduce nonessential regulation and services for REA borrowers	3(S)		
Total Cost Savings (S) by Category	\$ 9,764	\$2,506	\$157
Total Revenue Generation (R) by Category	326	244	0
Total Cost Savings/ Revenue Generation	<u>\$10,090</u>	<u>\$2,750</u>	<u>\$157</u>

CONTENTS

	Page
Foreword.....	V
Letter of Transmittal	VII
Preface	IX
Executive Summary	XIII
The Report Recommendations--A Perspective	XIX
I. Introduction.....	1
II. Issue and Recommendation Summaries:	
A. Farmers Home Administration	13
B. Food and Nutrition Service	48
C. Agricultural Marketing Service	73
D. Foreign and Domestic Commodity Programs ...	93
E. Local USDA Programs	139
F. Forest Service.....	170
G. Science and Education Administration.....	225
H. Rural Electrification Administration.....	243
III. Summary List of Recommendations	258
IV. Summary List of Savings	269
V. Cost Control Opportunities for Further Study.....	277
VI. Task Force Membership	277

(XXVII)

EXHIBITS

Table	Title	Page
<u>A. FARMERS HOME ADMINISTRATION</u>		
II-1	FmHA Loan and Grant Programs	14
II-2	Budget for New Loans	18
II-3	Loan Repayments.....	39
<u>B. FOOD AND NUTRITION SERVICES</u>		
II-4	Current Methodology for Determining TFP Monthly Allotment.....	50
II-5	Calculation of TFP Monthly Allotment	53
II-6	Alternative Method 3 for Savings Calculation .	53
II-7	Adjustment of Economies-of-Scale Factors	58
II-8	Potential Savings Under Various Coupon Options	64
<u>C. AGRICULTURAL MARKETING SERVICE</u>		
II-9	Budget and Personnel Trends.....	86
<u>D. FOREIGN AND DOMESTIC COMMODITY PROGRAMS</u>		
II-10	Components of PPSS Scenario Outlays for FY 1983 and FY 1984.....	98
II-11	Reconciliation of Differences Between USDA Estimates and PPSS Scenario for Selected Support Programs	99
II-12	Cost and Savings of Buy-Down Program	107
II-13	Savings During Four-Year Phase-Out Period.....	111
II-14	Budget and Staffing of ERS, FAS, and WAOB.....	121
<u>E. LOCAL USDA PROGRAMS</u>		
II-15	County Office Structure.....	140
II-16	Savings on Survey Costs.....	157
<u>F. FOREST SERVICE</u>		
II-17	Effects of Revision of Recreation Fees	188
II-18	Calculation of increases in Firewood Revenue .	192
II-19	Savings in Road Program Costs.....	199

Table	Title	Page
II-20	Savings Through Reduction in Maintenance Levels	199
II-21	Personnel Composition, 1981.....	207
II-22	Summary of Recommendations and Projected Savings.....	222

G. SCIENCE AND EDUCATION ADMINISTRATION

II-23	Savings in Staff and Budget Through Reorganization of ARS.....	233
II-24	Twenty Programs Proposed for Elimination	238

(XXIX)

I. INTRODUCTION

The Agriculture Task Force studied the U.S. Department of Agriculture (USDA), a Department covering a broad range of functions. It provides farmers with assistance in price supports, credit, production and marketing information, research, insurance, and marketing assistance. The Department provides consumers with nutrition information, regulations on safety and health, and food for low-income people. It manages the National Forests and the financing of many rural services.

The Task Force was organized into teams that correspond to major areas of expenses. These were the Farmers Home Administration; Food and Nutrition Service; Soil Conservation and Agricultural Stabilization and Conservation Service delivery systems to farmers; Forest Service; Foreign and Commodity Credit; Agricultural Marketing and Regulations; Science and Education; and Rural Electrification Administration.

The Task Force was under the leadership of the two Co-Chairmen--Messrs. William B. Graham and William Wood Prince. Mr. Graham is Chairman of Baxter Travenol Labs, Inc., and Mr. Wood Prince is President of F.H. Prince and Company. The day-to-day coordination of the project was supervised by the Project Manager--Clifton B. Cox, retired Vice-Chairman, the Greyhound Corporation, and formerly Chairman and Chief Executive Officer of Armour and Company. The Associate Project Manager was Gregory A. Knott, Deere and Company. The Task Force operated as teams without appointed group leaders.

Assistance was needed from specialists for some areas of study. In the area of foreign trade and agricultural policy, Dr. Ted Rice of Continental Grain, Norman Coates of Ralston-Purina, and Kenneth Farrell, former USDA employee, were consulted. Jim Grove of Rockingham National Bank helped on Commodity Credit. In addition, at the request of the Task Force, the Farm Journal did a national survey of farmers' attitudes on local delivery services of the Farmers Home Administration, the Soil Conservation Service, and the Agricultural Stabilization and Conservation Service. This study was professionally done and the results provided to the Task

Force proved beneficial. The contribution of each of the specialists is greatly appreciated.

Department of Agriculture cooperation has been excellent. Without the support of the Secretary, Deputy Secretary, Under Secretaries, and Assistant Secretaries, the study could only have been done with extreme difficulty, if at all. The assistance of all is appreciated. The following people gave extra facility assistance: Kenneth H. King, Frank Gearde, Bill Hollaway, Vince Chaverini, and Geraine Holcombe.

Special thanks are due the PPSS secretaries who worked patiently, tirelessly, and enthusiastically for the Task Force. Their effort allowed the completion of this work in a minimum of time. We appreciate the dedication of Holly B. Howell, Barbara B. Neesham, and Patricia M. Miron.

The Task Force members were well qualified, worked unselfishly, and made a real contribution to the study. Their team effort produced the results. Words cannot adequately express our thanks to them and their companies for the time and expenses contributed to this survey.

Budgetary Information--Summary Spreadsheet

The size, growth, and significance of an agency is indicated in part by its budget. To allow the reader more data to place these factors into perspective, a summary of budgetary information since 1962 is included as background information. Data shown include numbers of personnel, compensation, operating expenses, and capital spending. (See spreadsheet on following page.) These data were prepared at the start of the Survey. In some cases, they were updated in the Issue and Recommendation Summaries (Section II).

Department of Agriculture
Operating Expenses
Personnel Compensation

(Dollars in thousands)

Year	Number of Employees	Full-Time Permanent Positions	Positions Other Than Full-Time Perm.
(1) 1962	89,126	\$ 480,544	\$ 62,710
(2) 1970	99,248	884,082	107,393
(3) 1972	103,034	1,047,277	131,250
(4) 1974	101,549	1,151,231	161,242
(5) 1976	110,973	1,302,708	229,817
(6) 1977	121,462	1,460,153	274,583
(7) 1978	120,660	1,596,012	294,576
(8) 1979	120,645	1,671,474	355,770
(9) 1980	120,856	1,824,956	436,025
(10) 1981	117,064	1,982,706	454,765
(11) 1982E	114,104	2,116,329	341,331
(12) 1983B	109,401	2,084,118	389,925

Avg Ann Amt

Inc/(Dec)			
(13) 1962--1972	1,391	56,673	6,854
(14) 1972--1982E	1,107	106,905	21,008
(15) 1962--1982E	1,249	81,789	13,931
(16) 1980--1981	(3,792)	157,750	18,740
(17) 1981--1982E	(2,960)	133,623	(113,434)
(18) 1982E--1983B	(4,703)	(32,211)	48,594

Avg Ann %

Inc/(Dec)			
(19) 1962--1972	1.5%	8.1%	7.7%
(20) 1972--1982E	1.0	7.3	10.0
(21) 1962--1982E	1.2	7.7	8.8
(22) 1980--1981	(3.1)	8.6	4.3
(23) 1981--1982E	(2.5)	6.7	(24.9)
(24) 1982E--1983B	(4.1)	(1.5)	14.2

% of Total

(25) 1962	100.0%	3.3%	0.4%
(26) 1970	100.0	5.5	0.7
(27) 1972	100.0	4.8	0.6
(28) 1974	100.0	6.3	0.9
(29) 1976	100.0	5.2	0.9
(30) 1977	100.0	4.2	0.8
(31) 1978	100.0	3.6	0.7
(32) 1979	100.0	3.6	0.8
(33) 1980	100.0	3.4	0.8
(34) 1981	100.0	3.2	0.7
(35) 1982E	100.0	3.4	0.5
(36) 1983B	100.0	3.9	0.7

Department of Agriculture
Operating Expenses
Personnel Compensation

(Dollars in thousands)

Year	Other Personnel Compensation	Special Personal Svcs. Payments	Total Personnel Compensation
(1) 1962	\$ 27,683	\$ -	\$ 570,937
(2) 1970	40,049	1,998	1,033,522
(3) 1972	50,874	6,066	1,235,467
(4) 1974	76,030	10,440	1,398,943
(5) 1976	77,034	6,353	1,615,912
(6) 1977	97,029	24,053	1,855,818
(7) 1978	101,919	31,824	2,024,331
(8) 1979	112,214	20,762	2,160,220
(9) 1980	111,878	18,399	2,391,258
(10) 1981	119,579	8,828	2,565,878
(11) 1982E	123,268	15,808	2,596,736
(12) 1983B	128,221	10,760	2,613,024

Avg Ann Amt
Inc/(Dec)

(13) 1962--1972	2,319	607	66,453
(14) 1972--1982E	7,239	974	136,127
(15) 1962--1982E	4,779	790	101,290
(16) 1980--1981	7,701	(9,571)	174,620
(17) 1981--1982E	3,689	6,980	30,858
(18) 1982E--1983B	4,953	(5,048)	16,288

Avg Ann %
Inc/(Dec)

(19) 1962--1972	6.3%	ND %	8.0%
(20) 1972--1982E	9.3	10.1	7.7
(21) 1962--1982E	7.8	ND	7.9
(22) 1980--1981	6.9	(52.0)	7.3
(23) 1981--1982E	3.1	79.1	1.2
(24) 1982E--1983B	4.0	(31.9)	0.6

% of Total

(25) 1962	0.2%	- %	4.0%
(26) 1970	0.2	-	6.4
(27) 1972	0.2	-	5.6
(28) 1974	0.4	0.1	7.7
(29) 1976	0.3	-	6.5
(30) 1977	0.3	0.1	5.4
(31) 1978	0.2	0.1	4.6
(32) 1979	0.2	-	4.7
(33) 1980	0.2	-	4.5
(34) 1981	0.2	-	4.2
(35) 1982E	0.2	-	4.1
(36) 1983B	0.2	-	4.9

Department of Agriculture
Operating Expenses

(Dollars in thousands)

	Year	Civilian Personnel Benefits	Military Personnel Benefits	Benefits for Former Personnel
(1)	1962	\$ 47,084	\$ -	\$ -
(2)	1970	95,826	-	436
(3)	1972	123,931	-	380
(4)	1974	145,123	-	994
(5)	1976	186,484	-	771
(6)	1977	206,864	-	553
(7)	1978	225,579	102	499
(8)	1979	250,413	-	396
(9)	1980	277,113	-	602
(10)	1981	302,402	-	3,213
(11)	1982E	307,103	-	4,646
(12)	1983B	301,533	-	5,720

Avg Ann Amt

	Inc/(Dec)			
(13)	1962--1972	7,685	-	38
(14)	1972--1982E	18,317	-	427
(15)	1962--1982E	13,001	-	232
(16)	1980--1981	25,289	-	2,611
(17)	1981--1982E	4,701	-	1,433
(18)	1982E--1983B	(5,570)	-	1,074

Avg Ann %

	Inc/(Dec)			
(19)	1962--1972	10.2%	ND	ND
(20)	1972--1982E	9.5	ND	28.4
(21)	1962--1982E	9.8	ND	ND
(22)	1980--1981	9.1	ND	433.7
(23)	1981--1982E	1.6	ND	44.6
(24)	1982E--1983B	(1.8)	ND	23.1

% of Total

(25)	1962	0.3%	%	-
(26)	1970	0.6	-	-
(27)	1972	0.6	-	-
(28)	1974	0.8	-	-
(29)	1976	0.7	-	-
(30)	1977	0.6	-	-
(31)	1978	0.5	-	-
(32)	1979	0.5	-	-
(33)	1980	0.5	-	-
(34)	1981	0.5	-	-
(35)	1982E	0.5	-	-
(36)	1983B	0.6	-	-

Department of Agriculture
Operating Expenses

(Dollars in thousands)

Year	Travel & Transport of Persons	Transport of Things	Rent, Communications & Utilities
(1) 1962	\$ 37,555	\$ 318,524	\$ 34,625
(2) 1970	51,259	247,466	52,024
(3) 1972	68,225	299,539	67,754
(4) 1974	75,458	167,115	95,787
(5) 1976	100,956	195,528	177,040
(6) 1977	120,293	252,449	211,315
(7) 1978	132,442	283,034	242,046
(8) 1979	138,886	337,286	259,412
(9) 1980	143,234	432,963	265,991
(10) 1981	149,320	506,827	310,750
(11) 1982E	153,958	529,883	325,747
(12) 1983B	157,827	93,598	335,864

Avg Ann Amt

<u>Inc/(Dec)</u>			
(13) 1962--1972	3,067	(1,899)	3,313
(14) 1972--1982E	8,573	23,034	25,799
(15) 1962--1982E	5,820	10,568	14,556
(16) 1980--1981	6,086	73,864	44,759
(17) 1981--1982E	4,638	23,056	14,997
(18) 1982E--1983B	3,869	(436,285)	10,117

Avg Ann %

<u>Inc/(Dec)</u>			
(19) 1962--1972	6.2%	(0.6)%	6.9%
(20) 1972--1982E	8.5	5.9	17.0
(21) 1962--1982E	7.3	2.6	11.9
(22) 1980--1981	4.2	17.1	16.8
(23) 1981--1982E	3.1	4.5	4.8
(24) 1982E--1983B	2.5	(82.3)	3.1

% of Total

(25) 1962	0.3%	2.2%	0.2%
(26) 1970	0.3	1.5	0.3
(27) 1972	0.3	1.4	0.3
(28) 1974	0.4	0.9	0.5
(29) 1976	0.4	0.8	0.7
(30) 1977	0.3	0.7	0.6
(31) 1978	0.3	0.6	0.6
(32) 1979	0.3	0.7	0.6
(33) 1980	0.3	0.8	0.5
(34) 1981	0.2	0.8	0.5
(35) 1982E	0.2	0.8	0.5
(36) 1983B	0.3	0.2	0.6

Department of Agriculture
Operating Expenses

(Dollars in thousands)

Year	Printing and Reproduction	Other Services	Supplies and Materials
(1) 1962	\$ 9,216	\$ 611,838	\$ 4,264,580
(2) 1970	16,399	1,469,415	2,569,430
(3) 1972	25,786	1,901,623	2,587,558
(4) 1974	41,350	1,007,083	2,003,002
(5) 1976	57,006	1,569,692	1,602,275
(6) 1977	44,839	1,772,875	2,480,297
(7) 1978	59,130	1,949,781	2,653,324
(8) 1979	59,764	2,154,822	3,046,327
(9) 1980	77,852	2,186,168	4,316,702
(10) 1981	69,627	2,894,389	4,690,500
(11) 1982E	75,025	2,978,315	4,170,425
(12) 1983B	80,058	2,037,237	704,979

Avg Ann Amt

Inc/(Dec)			
(13) 1962--1972	1,657	128,979	(167,702)
(14) 1972--1982E	4,924	107,669	158,287
(15) 1962--1982E	3,290	118,324	(4,708)
(16) 1980--1981	(8,225)	708,221	373,798
(17) 1981--1982E	5,398	83,926	(520,075)
(18) 1982E--1983B	5,033	(941,078)	(3,465,446)

Avg Ann %

Inc/(Dec)			
(19) 1962--1972	10.8%	12.0%	(4.9)%
(20) 1972--1982E	11.3	4.6	4.9
(21) 1962--1982E	11.1	8.2	(0.1)
(22) 1980--1981	(10.6)	32.4	8.7
(23) 1981--1982E	7.8	2.9	(11.1)
(24) 1982E--1983B	6.7	(31.6)	(83.1)

% of Total

(25) 1962	0.1%	4.3%	29.6%
(26) 1970	0.1	9.1	15.8
(27) 1972	0.1	8.7	11.8
(28) 1974	0.2	5.5	11.0
(29) 1976	0.2	6.3	6.4
(30) 1977	0.1	5.1	7.2
(31) 1978	0.1	4.4	6.0
(32) 1979	0.1	4.7	6.6
(33) 1980	0.1	4.1	8.1
(34) 1981	0.1	4.7	7.6
(35) 1982E	0.1	4.7	6.6
(36) 1983B	0.2	3.8	1.3

Department of Agriculture
Operating Expenses

(Dollars in thousands)

Year	Grants Subsidies, Contributions	Insurance Claims and Indemnities	Interest and Dividends
(1) 1962	\$ 3,970,068	\$ 18,636	\$ 1,208,400
(2) 1970	5,447,840	58,696	780,220
(3) 1972	6,822,811	39,815	622,794
(4) 1974	6,727,752	914,127	695,422
(5) 1976	9,408,794	78,852	1,061,183
(6) 1977	10,041,073	156,481	1,490,568
(7) 1978	12,307,060	167,324	2,444,157
(8) 1979	13,831,098	64,672	3,697,268
(9) 1980	15,380,804	91,486	4,786,122
(10) 1981	18,705,204	387,151	6,521,215
(11) 1982E	18,178,509	340,277	8,102,219
(12) 1983B	14,807,692	318,712	6,901,635

Avg Ann Amt

<u>Inc/(Dec)</u>			
(13) 1962--1972	285,274	2,118	(58,561)
(14) 1972--1982E	1,135,570	30,046	747,943
(15) 1962--1982E	710,422	16,082	344,691
(16) 1980--1981	3,324,400	295,665	1,735,093
(17) 1981--1982E	(526,695)	(46,874)	1,581,004
(18) 1982E--1983B	(3,370,817)	(21,565)	(1,200,584)

Avg Ann %

<u>Inc/(Dec)</u>			
(19) 1962--1972	5.6%	7.9%	(6.4)%
(20) 1972--1982E	10.3	23.9	29.2
(21) 1962--1982E	7.9	15.6	10.0
(22) 1980--1981	21.6	323.2	36.3
(23) 1981--1982E	(2.8)	(12.1)	(24.2)
(24) 1982E--1983B	(18.5)	(6.3)	(14.8)

% of Total

(25) 1962	27.6%	0.1%	8.4%
(26) 1970	33.6	0.4	4.8
(27) 1972	31.2	0.2	2.8
(28) 1974	37.0	5.0	3.8
(29) 1976	37.6	0.3	4.2
(30) 1977	29.2	0.5	4.3
(31) 1978	28.0	0.4	5.6
(32) 1979	30.1	0.1	8.0
(33) 1980	28.9	0.2	9.0
(34) 1981	30.4	0.6	10.6
(35) 1982E	29.0	0.5	12.9
(36) 1983B	28.0	0.6	13.0

Department of Agriculture
Operating Expenses

(Dollars in thousands)

Year	Refunds	Undistributed	Admin. or Non-Admin. Expenses
(1) 1962	\$ 3,955	\$ 128	\$ -
(2) 1970	2,525	199	-
(3) 1972	1,909	237	-
(4) 1974	897,752	789	-
(5) 1976	920,985	414	-
(6) 1977	917,585	15,277	-
(7) 1978	442,023	1,700	-
(8) 1979	191,885	(344)	-
(9) 1980	151,198	(802)	-
(10) 1981	120,656	1,471	-
(11) 1982E	101,066	1,226	-
(12) 1983B	85,047	12,054,483	-

Avg Ann Amt
Inc/(Dec)

(13) 1962--1972	(205)	11	-
(14) 1972--1982E	9,916	99	-
(15) 1962--1982E	4,856	55	-
(16) 1980--1981	(30,542)	2,273	-
(17) 1981--1982E	(19,590)	(245)	-
(18) 1982E--1983B	(16,019)	12,053,257	-

Avg Ann %
Inc/(Dec)

(19) 1962--1972	(7.0)%	6.4%	ND %
(20) 1972--1982E	48.7	17.9	ND
(21) 1962--1982E	17.6	12.0	ND
(22) 1980--1981	(20.2)	ND	ND
(23) 1981--1982E	(16.2)	(16.7)	ND
(24) 1982E--1983B	(15.9)	983,136.8	ND

% of Total

(25) 1962	- %	- %	- %
(26) 1970	-	-	-
(27) 1972	-	-	-
(28) 1974	4.9	-	-
(29) 1976	3.7	-	-
(30) 1977	2.7	-	-
(31) 1978	1.0	-	-
(32) 1979	0.4	-	-
(33) 1980	0.3	-	-
(34) 1981	0.2	-	-
(35) 1982E	0.2	-	-
(36) 1983B	0.2	22.8	-

Department of Agriculture
Operating Expenses

(Dollars in thousands)

	Year	Change in Selected Resources	Quarters and Subsistence Charges	Total Operating Expenses
(1)	1962	\$ (426,269)	\$ (2,180)	\$10,667,097
(2)	1970	(944,726)	(2,249)	10,878,282
(3)	1972	876,349	(2,261)	14,671,917
(4)	1974	(1,718,713)	(2,391)	12,449,593
(5)	1976	825,958	(3,161)	17,798,689
(6)	1977	2,954,238	(13)	22,520,512
(7)	1978	614,347	-	23,546,879
(8)	1979	(563,569)	-	25,628,536
(9)	1980	1,648,041	-	32,148,732
(10)	1981	1,175,770	-	38,404,373
(11)	1982E	(577,102)	-	37,288,033
(12)	1983B	(1,293,264)	-	39,204,145

Avg Ann Amt

	Inc/(Dec)		
(13)	1962--1972	130,262	(8)
(14)	1972--1982E	(145,345)	226
(15)	1962--1982E	(7,542)	109
(16)	1980--1981	(472,271)	-
(17)	1981--1982E	(1,752,872)	-
(18)	1982E--1983B	(716,162)	-
			400,482
			2,261,612
			1,331,047
			6,255,641
			(1,116,340)
			1,916,112

Avg Ann %

	Inc/(Dec)		
(19)	1962--1972	- %	(0.4)%
(20)	1972--1982E	ND	ND
(21)	1962--1982E	(1.5)	ND
(22)	1980--1981	(28.7)	ND
(23)	1981--1982E	ND	ND
(24)	1982E--1983B	(124.1)	ND
			3.2%
			9.8
			6.5
			19.5
			(2.9)
			5.1

% of Total

(25)	1962	(3.0)%	- %	74.1%
(26)	1970	(5.8)	-	67.1
(27)	1972	4.0	-	67.1
(28)	1974	(9.5)	-	68.5
(29)	1976	3.3	-	71.1
(30)	1977	8.6	-	65.4
(31)	1978	1.4	-	53.5
(32)	1979	(1.2)	-	55.7
(33)	1980	3.1	-	60.4
(34)	1981	1.9	-	62.5
(35)	1982E	(0.9)	-	59.4
(36)	1983B	(2.4)	-	74.0

Department of Agriculture
Capital Spending

(Dollars in thousands)

Year	Equipment	Lands and Structures	Investments and Loans
(1) 1962	\$ 30,816	\$ 23,923	\$ 3,669,392
(2) 1970	34,044	68,281	5,238,617
(3) 1972	43,945	75,871	7,076,074
(4) 1974	54,624	47,251	5,611,652
(5) 1976	66,112	51,260	7,114,974
(6) 1977	91,052	259,638	11,559,254
(7) 1978	115,553	304,417	20,029,865
(8) 1979	116,036	358,189	19,897,172
(9) 1980	124,870	337,883	20,598,559
(10) 1981	121,902	355,017	22,585,430
(11) 1982E	130,283	253,135	25,070,115
(12) 1983B	129,897	210,202	13,429,497

Avg Ann Amt
Inc/(Dec)

(13) 1962--1972	1,313	5,195	340,668
(14) 1972--1982E	8,634	17,726	1,799,404
(15) 1962--1982E	4,973	11,461	1,070,036
(16) 1980--1981	(2,968)	17,134	1,986,871
(17) 1981--1982E	8,381	(101,882)	2,484,685
(18) 1982E--1983B	(404)	(42,933)	(11,640,618)

Avg Ann %
Inc/(Dec)

(19) 1962--1972	3.6%	12.2%	9.8%
(20) 1972--1982E	11.5	12.8	13.5
(21) 1962--1982E	7.5	12.5	10.1
(22) 1980--1981	(2.4)	5.1	9.6
(23) 1981--1982E	6.9	(28.7)	11.0
(24) 1982E--1983B	(0.3)	(17.0)	(46.4)

% of Total

(25) 1962	0.2%	0.2%	25.5%
(26) 1970	0.2	0.4	32.3
(27) 1972	0.2	0.3	32.4
(28) 1974	0.3	0.3	30.9
(29) 1976	0.3	0.2	28.4
(30) 1977	0.3	0.8	33.6
(31) 1978	0.3	0.7	45.5
(32) 1979	0.3	0.8	43.3
(33) 1980	0.2	0.6	38.7
(34) 1981	0.2	0.6	36.7
(35) 1982E	0.2	0.4	40.0
(36) 1983B	0.2	0.4	25.4

Department of Agriculture

(Dollars in thousands)

Year	Total Capital Spending	Total Spending
(1) 1962	\$ 3,724,131	\$14,391,228
(2) 1970	5,340,942	16,219,224
(3) 1972	7,195,890	21,867,807
(4) 1974	5,713,527	18,163,120
(5) 1976	7,232,346	25,031,035
(6) 1977	11,909,944	34,430,456
(7) 1978	20,449,835	43,996,714
(8) 1979	20,371,397	45,999,933
(9) 1980	21,061,312	53,210,044
(10) 1981	23,062,349	61,466,722
(11) 1982E	25,453,533	62,741,566
(12) 1983B	13,769,578	52,973,723
<u>Avg Ann Amt</u>		
<u>Inc/(Dec)</u>		
(13) 1962--1972	347,176	747,658
(14) 1972--1982E	1,825,764	4,087,376
(15) 1962--1982E	1,086,470	2,417,517
(16) 1980--1981	2,001,037	8,256,678
(17) 1981--1982E	2,391,184	1,274,844
(18) 1982E--1983B	(11,683,955)	(9,767,843)
<u>Avg Ann %</u>		
<u>Inc/(Dec)</u>		
(19) 1962--1972	6.8%	4.3%
(20) 1972--1982E	13.5	11.1
(21) 1962--1982E	10.1	7.6
(22) 1980--1981	9.5	15.5
(23) 1981--1982E	10.4	2.1
(24) 1982E--1983B	(45.9)	(15.6)
<u>% of Total</u>		
(25) 1962	25.9%	100.0%
(26) 1970	32.9	100.0
(27) 1972	32.9	100.0
(28) 1974	31.5	100.0
(29) 1976	28.9	100.0
(30) 1977	34.6	100.0
(31) 1978	46.5	100.0
(32) 1979	44.3	100.0
(33) 1980	39.6	100.0
(34) 1981	37.5	100.0
(35) 1982E	40.6	100.0
(36) 1983B	26.0	100.0

II. ISSUE AND RECOMMENDATION SUMMARIES

A. FARMERS HOME ADMINISTRATION (FmHA)

Overview

The Farmers Home Administration (FmHA) is the United States Department of Agriculture (USDA) agency given primary responsibility for administering loan and grant programs to rural Americans. Specifically, the Agency states that its mission is:

... to provide supervised credit assistance to rural Americans by: (1) encouraging and supporting family farm ownership and operations to provide an economic and social base; (2) providing adequate housing; (3) installing needed community facilities; (4) providing economic support to farmers affected by disaster; and (5) fostering rural economic development. (See Table II-1 on following page.)

In FY 1981, FmHA employed approximately 12,500 personnel (of whom 8,525 were permanent, full-time employees) in about 2300 county, district, and state offices around the country. Total loan and grant amounts in FY 1981 were approximately \$13.9 billion and FY 1982 estimates are \$9.3 billion. FmHA holds 54 percent of the USDA receivables and 88 percent of its delinquencies and thus deserves significant Departmental attention.

Over the past 10 to 15 years, the FmHA has shown exponential growth in the number of borrowers and loans outstanding. In addition, Congress has substantially expanded the number of programs the Agency administers and the constituencies it serves. As of June 30, 1982, approximately \$58.0 billion was outstanding to 1.5 million borrowers. Further, more than 55 percent of the Agency's outstanding loans are to nonfarm borrowers, who constitute approximately 70 percent of the total number of borrowers.

Such growth and diversification has prevented FmHA from adequately meeting the needs of farmers and has resulted in an overall delinquency rate of 43 percent in the farm loan programs (\$10.2 billion to 122,000 borrowers). Obviously,

major, immediate, and dramatic changes are required to prevent huge losses in the near future.

Table II-1
FmHA Loan and Grant Programs

Farmer Programs

- Farm Operating Loans
- Farm Ownership Loans
- Recreation Loans (Individual)
- Emergency Loans
- Economic Emergency Loans
- Grazing Association Loans
- Soil and Water Loans (Individual)
- Irrigation and Drainage Loans
- Indian Land Acquisition Loans

Rural Housing Programs

- Individual Housing Loans
- Very Low Income Repair Grants
- Rural Rental Housing Loans
- Rural Assistance Program:
 - Rental Housing
 - Labor Housing
- Farm Labor Housing Loans
- Farm Labor Housing Grants
- Site Loans
- Self-Help Housing Grants
- Rural Housing Supervisory Assistance Grants

Community Programs

- Water and Waste Disposal Loans
- Water and Waste Disposal Grants
- Community Facility Loans
- Industrial Development Grants
- Watershed and Flood Prevention Loans
- Resource Conservation and Development Loans
- Rural Development Planning Grants (ADA)
- Development Grants other than FmHA

Business and Industry Programs

- Guaranteed Business/Industrial Loans

AG 1: Promote Loan Graduation for Each New FmHA Loan Booked

Issue and Savings

Farmers Home Administration's (FmHA's) loan obligations and their related costs should be reduced by implementing a policy of matching each new loan refinanced from the private sector with the "graduation" of an existing FmHA loan. It is anticipated that \$4.6 billion in budgeted new lending in FY 1983 could be offset by graduation of existing FmHA loans. By eliminating Government-financed subsidies on these graduated loans, interest expense would be reduced by \$141 million and administrative costs of \$91 million could be avoided, for a savings of \$768 million over three years.

Background

FmHA loans are made to eligible borrowers who are unable to obtain suitable credit elsewhere, so that they may continue their operations and return (graduate) to private sources of credit as soon as possible. Graduation covenants for this purpose are contained in the Security Agreements and Promissory Notes currently being used by the Agency.

Despite impressive administrative pronouncements by the USDA Under Secretary for Small Community and Rural Development and the Administrator of FmHA declaring an Agency redirection from loan making to loan supervision, very limited graduation has taken place to date. This has contributed, in part, to the tremendous growth experienced by the Agency. FmHA loans have increased from \$6.5 billion in 1970 to \$58 billion in 1982. In addition, FmHA's share of non-real-estate farm loans outstanding has grown from 3.3 percent in 1971 to 15.0 percent in 1982. As of June 30, 1982, \$58 billion in loans was outstanding.

Methodology

Extensive background materials in the form of Office of Inspector General (OIG) audits, General Accounting Office (GAO) reports, FmHA internal assessment reports, industry journals and Economic Research Service (ERS) summaries were reviewed (bibliography on file), in combination with interviews involving key FmHA National Office personnel (memos to file on record). Questionnaires were then sent to private bankers and Farm Credit System personnel (responses on file). Finally, in-depth interviews with local FmHA personnel, commercial bankers, and Farm Credit System personnel were held in three states (memos to file on record).

Findings

Responsibility for identifying loans with potential for graduation rests with FmHA's St. Louis Finance Office, with borrowers scheduled for three- to five-year reviews, depending on the loan program. FmHA loan graduations carried out in the past have not been successful for a variety of reasons:

- * Lack of incentives (and disincentives) for FmHA field personnel,
- * Reluctance on the part of private lenders to initiate graduations,
- * Lack of adequate management information systems to identify candidates for graduations,
- * Borrower disincentives to graduate, and
- * Lack of enforcement of graduation covenants by FmHA and the Office of General Counsel.

A great deal of evidence suggests that significant potential exists for graduations, despite current economic and industry conditions. Some projections of potential eligible loan graduations are as high as 50 percent in existing FmHA loan portfolios. Further, the OIG estimates that, in the rural housing programs alone, eligible loans not yet graduated total \$1.3 billion in financial obligations and \$100 million in increased interest subsidies.

The states of Oregon and South Carolina have been notable exceptions to the general lack of success of graduations. These states have achieved a 20 to 30 percent rate of graduation for their outstanding portfolios, thus confirming the fact that significant potential exists.

Surveys and interviews with private sector lenders revealed that FmHA has often been used as an easy "bail out" for troubled loans. Private lenders will tend to transfer as many of these borrowers to FmHA as possible without sharing any responsibility for assistance in difficult economic times unless specific effort is made toward graduating eligible loans. Private sector abuses of FmHA's programs substantiate the need for a mechanism to ensure FmHA use for only truly needy borrows.

Declining loan/deposit ratios of rural banks suggest that good loans will be well received by the private sector, if FmHA aggressively initiates action.

Conclusions

FmHA has a major opportunity to increase the rate of borrower graduations. To do so, however, it will be necessary to overcome most of the impediments to past graduations noted in the Findings section above. Matching of additional FmHA loan assistance to private sector lenders should bring about a public/private sector farm portfolio balance that is more in line with FmHA's mission as a lender of last resort.

Recommendations

AG 1-1: The FmHA Administrator should declare an Agency-wide policy of matching each new loan booked with the graduation of an existing FmHA loan to a private sector lender. This would be on a "loan-for-loan" basis, regardless of dollar amount, and should apply to the Farm Ownership, Farm Operating, Emergency Disaster, and Single Family Housing Programs.

AG 1-2: Field Personnel performance evaluation, which is currently based on volume, should be based predominantly upon graduation successes. It is recognized, however, that management flexibility in this respect will be necessary to handle various situations.

AG 1-3: Maximum incentive should be given to county officers to identify and initiate loan graduations and to establish ongoing relationships with private lenders.

Savings and Impact Analysis

As of June 30, 1982, there were 1.2 million loans outstanding in the Farm Ownership, Farm Operating, Emergency Disaster, and Single Family Housing Programs. Based on a review of audit reports, field interviews, and actual results in Oregon and South Carolina, the Agriculture Task Force estimates potential graduations at 20 percent of the existing portfolio, or approximately 250,000 loans.

New loan obligations for the four programs are budgeted at \$4.6 billion in 1983 for 113,900 loans. It is assumed that accelerated graduations could at least offset the \$4.6 billion budgeted for new loans, with resulting savings of \$141 million based on reduced interest subsidies as follows in Table II-2:

Table II-2
Budget For New Loans

<u>Item</u>	<u>Emergency Disaster Loans</u>	<u>Single Family Housing Loans</u>	<u>Total</u>
Number of new loans budgeted	34,600	27,090	61,690
Amount budgeted for new loans (\$ billion)	\$1.5	\$0.9	\$2.4
Subsidized interest rate (%) <u>1/</u>	5.0%	7.3%	NA
Subsidized interest amount (\$ million)	\$75	\$66	\$141

1/ The differential between average or representative interest rates and an assumed Government cost of funds of 10 percent.

Available data do not allow quantification of interest savings for all programs, but offsetting new lending in the Emergency Disaster and Single Family Housing Loan programs by the graduation of existing loans would thus reduce the Government's interest expense by \$141 million per year.

Curtailed growth of outstanding loans will allow administrative cost savings. For example, offsetting 113,900 budgeted new loans with a like number of graduations would save \$91 million per year, assuming (using Departmental budgeting assumptions) 50 average staff-hours per loan at \$20 per hour for average staff costs, resulting in annual costs per loan of \$1,000, or \$114 million for the 113,900 new loans budgeted. Processing costs of \$200 per graduation are assumed, or \$23 million for 113,900 existing loans graduated. New administrative cost savings of \$91 million (\$114 million--\$23 million) would therefore result.

Implementation

The Administrator of FmHA has the authority to implement these recommendations and should do so immediately. However, Congressional support is desirable and should be coordinated.

Additional Information

Recommendation AG 3 outlines a Certified Lender Program which will greatly improve working relationships between FmHA and selected private farm lenders, thus enhancing the potential for loan graduations. Due to the synergy that exists between these two recommendations, PPSS suggests they be considered concurrently.

It should be noted that savings for FmHA loan graduations will also be reported by the PPSS cross-cutting Financial Asset Management Task Force.

Issue and Savings

Farmers Home Administration (FmHA) management information systems should be improved to allow more effective management of the Agency and its loan portfolio, to reduce costs at the national office, and to reduce the workload of field personnel. Estimated savings from improved management information are difficult to quantify, but are in the order of \$178 million in recovered delinquent principal and interest and \$18 million in reduced interest costs to the U.S. Treasury. In addition, savings from the recommended reorganization are approximately \$673,000 per year. This totals \$63 million in savings over three years.

Background

The major sources of FmHA management information are the Finance Office in St. Louis, Missouri, and direct contact with local field personnel. Approximately 2,300 state, district, and county offices report monthly, quarterly, and semiannual data to the Management Information Systems Development Division (MISDD) and the Resource Management Systems Division (RMS). MISDD uses this information, together with that supplied by the Finance Office in St. Louis, to provide management information in the areas of program support and administration. The Finance Office issues its own form of management information reports generated from its accounting and data processing functions, as well as information obtained directly from the field. The RMS division provides management information relating to "productivity" and "accomplishments" of field offices for personnel management and budgeting purposes. Although all three divisions ultimately report to the Deputy Administrator of Financial and Administrative Operations, the MISDD, RMS, and Finance Office are located in separate areas of the organization.

Methodology

The Task Force conducted extensive interviews with users of the various reports and information, as well as with National Office employees. In addition, a Task Force member visited the Finance Office in St. Louis, and numerous telephone interviews took place with employees from that office.

Materials and reports provided by the various FmHA divisions, as well as those obtained from OIG, GAO, etc., were reviewed. A listing of most reports and source documents was provided by MISDD and RMS.

Findings

In general, the management information generated by the Finance Office, RMS, and MISDD is inadequate for the effective management of the portfolio and the Agency. In many cases, the information provided is either duplicative, misleading, or inconsistent.

Despite the fact that the Finance Office generates approximately 125 management-type reports (most of which are sent to MISDD) in addition to the reports filled out by the field offices for MISDD and RMS, important information concerning the condition of the portfolio and borrowers is extremely difficult to obtain. For example, information which the Task Force requested relating to the "aging" of the portfolio and the number of potential borrowers eligible for graduation was not available.

Since its first semiannual report to Congress in May 1979, the Office of Inspector General (OIG) has reported on many of FmHA's management problems which result, in part, from "the inability of the Agency to develop an information and accounting system responsive to its needs." OIG has further stated that "this lack of information seriously hampers the Agency's ability to manage its receivables effectively." OIG audits have also found that "Finance Office delinquency reports are neither timely nor accurate. In 1981, about 20 percent of the accounts shown as delinquent in one state were actually current."

A review of reports and source documents currently generated by the Agency revealed many instances of duplicated information, reports, and data gathering by the Finance Office, RMS, and MISDD. This review, together with numerous interviews, demonstrated definite room for increased coordination and organization between units, particularly RMS and MISDD and between RMS and the Finance Office.

Interviews conducted with various users of reports also showed widespread lack of understanding of how to use the data presented, as well as widespread criticism of the actual information available. No formal feedback channels are available, or sought after, from users of reports.

Conclusions

The need for a better organized, more responsive management information system clearly exists. The Agency's outstanding loans have grown by 545 percent since 1972, and the number of active borrowers has grown by 196 percent in the same period. The generation of adequate, timely, and accurate information is therefore of critical importance. Many of the problems cited in other issues (particularly those related to the condition of the loan portfolio and lack of graduation) are, at least in part, the result of an ineffective information system. The duplication and lack of control of reports and data gathering are manifestations of broader problems arising from the Agency's tremendous growth, as well as its current organizational structure.

Recommendations

AG 2-1: Through the use of directives, performance appraisal, and any other means available, the Administrator should place greater emphasis on adherence to current regulations and procedures as they relate to the control and maintenance of reports. To this end, immediate priority should be given to rectifying (and eliminating if necessary) current duplications and useless information, as well as to closely monitoring adherence to current and new policies and procedures.

AG 2-2: MISDD should immediately update the forms and reports inventory for the entire Agency. MISDD should also ensure that this inventory is regularly maintained and made available to the Administrator and Deputy Administrator, as well as to other interested parties such as the Office of Management and Budget.

AG 2-3: MISDD should establish and follow formal procedures and channels whereby user feedback can be regularly obtained and acted upon to ensure that reports are truly needed and properly used.

AG 2-4: Specific information relating to the "ranking" or classification of the quality of loans within the portfolio should be generated (most likely from the county and district offices) as soon as possible. This would not only force county officers to address the high rates of delinquencies and lack of loan graduations, but it would also

make performance in this regard more measurable and officers more accountable to supervisors.

AG 2-5: The Administrator should combine or consolidate RMS and MISDD to facilitate access to information obtained from field offices and to eliminate duplication of data gathering.

Savings and Impact Analysis

Direct savings resulting from an improved management information system are extremely difficult to quantify. Nevertheless, as the size of the portfolio and number of delinquent loans continue to grow, such information is critical if the potential for huge loan losses in the future is to be lessened and the Agency is to successfully carry out its mission.

While FmHA, as a lender of last resort, can be expected to accept a higher rate of delinquent borrowers than either the Farm Credit System or commercial lenders (3-4% and 2-3% respectively, as opposed to 29% for FmHA), the current rate appears to be excessive. Improving the Agency's management information system can reduce these delinquencies to a level more consistent with that experienced by the private sector, as well as by the Agency in the past (10% in 1970 and 18% in 1975). Every 5 percent reduction in delinquencies recovers approximately \$178 million in past-due principal and interest and thus represents an "opportunity cost" saving (at 10% cost of funds) of \$17.8 million.

In addition, as mentioned in recommendation AG 1 (loan graduations to the private sector), a great deal of potential currently exists for borrowers to graduate out of FmHA-assisted credit. One of the problems facing the Agency, however, is the lack of adequate information to identify such eligible borrowers. The generation of such information through the "ranking" or "aging" of the portfolio, for example, should alleviate this problem and increase loan graduations.

Finally, combining RMS and MISDD will result in quantifiable savings of at least \$673,000 in reduced field personnel time and increased work capacity.

Implementation

All recommendations can be implemented immediately through the existing authority of the Administrator.

Additional Information

The Director of Planning and Analysis, the Director of MISDD, and a number of employees with both divisions support the Task Force's recommendation to consolidate RMS and MISDD.

Issue and Savings

The Farmers Home Administration (FmHA) can limit growth in Government loan obligations, reduce delinquencies, control contingent liability, and save loan processing costs by (1) moving from direct lending to loan guarantees, (2) establishing a Certified Lender Program, and (3) using fixed amount, rather than percentage, guarantees. In addition to an estimated \$475 million in increased principal and interest payments, \$68 million in loan processing savings could be realized while curtailing Government loan liability by \$20 million. Also, \$48 million in opportunity cost savings are possible. These savings equal \$451 million over three years.

Background

FmHA has shown tremendous growth in the past. Outstanding loans have increased from \$6.5 billion in 1970 to \$58 billion in 1982, and delinquent loans have grown from 10 to 29 percent (\$15.9 billion) in the same period. Sixty percent of these delinquent loans (\$9.5 billion) are more than two years delinquent. In addition, FmHA's share of outstanding non-real-estate farm loans has grown from 3.3 percent in 1971 to 15.0 percent in 1982. The FY 1983 budget reflects \$9.26 billion in new loans, and most FmHA personnel expect continued expansion.

This Administration, as well as the majority of private lenders, believes that Government credit assistance should be temporary, with special emphasis upon financial counseling and supervision and extended only to borrowers who have a reasonable chance of success and graduation.

Methodology

The Task Force reviewed extensive background materials, including Government Accounting Office (GAO) reports, Office of Inspector General (OIG) audits, Agency publications, industry reports, Economic Research Service (ERS) summary papers, and others (bibliography on file). Next, interviews were conducted with relevant FmHA National Office and county, district, and state personnel (memos to file on record). In addition, interviews and written questionnaires (results in file) were obtained from private sector agri-

cultural bankers and Farm Credit System representatives. Finally, Small Business Administration (SBA)-related information was corroborated with the Presidents Private Sector Survey (PPSS) SBA Task Force, as were graduation/guarantee recommendations with the PPSS Financial Asset Management Task Force.

Findings

Interviews revealed a perception among private sector farm lenders that, as a result of the Agency's growth, FmHA field personnel no longer have the time or capability to assist young or disaster-ridden farmers in becoming good credit risks. Furthermore, FmHA is perceived as having only limited interest in working jointly with the private sector.

As of April 30, 1982, only \$2.95 billion of FmHA's total outstanding loans were in the form of guarantees. The Agency's guaranteed loan programs have not been successful because:

- * Private sector lenders find current procedures cumbersome;
- * Borrowers prefer lower, fixed-rate direct loans;
- * Guarantees have been used almost totally at the maximum level of 90 percent, resulting in little incentive for private lenders to properly administer the loans.

In contrast, SBA has curtailed growth and enjoys a relatively favorable image with private sector lenders. This is generally attributed to SBA's policies of (1) advancing its assistance increasingly through guarantees rather than through direct loans (over 50% of the Agency's portfolio is now in the form of guarantees) and (2) establishing a closer working relationship with certain commercial lenders through the Certified Lender Program. The concept behind this program, which has enjoyed significant success, is for the SBA to identify "proven lending partners" and to delegate to these lenders many of the authorities and responsibilities formerly held by the Agency. This has allowed the SBA to provide "three-day" decision-making service to these certified lenders, resulting in better (and quicker) overall service to its small business clients.

The Administrator of SBA has indicated that in the future all loans will be handled by private lenders, with the SBA providing only guarantees (i.e., no more direct lending). SBA processing costs for guaranteed loans are about half the cost of processing direct loans.

In structuring loan guarantees, the private sector commonly uses fixed dollar amounts rather than a loan percentage. The lender obtains a dollar guarantee for only that portion of the loan which is improperly margined and administers the guarantee on a "last-in, first-out" basis (the guarantee is only called after the full amount of the nonguaranteed portion of the loan is lost). This ensures greater private-lender incentive to effectively administer the credit, and also allows increased flexibility for the removal or reduction of the guarantee as the loan becomes more properly margined.

This type of guarantee shows particular potential for today's farm operating loans, since private lenders are shifting from collateral lending (previously based on equity held in farm real estate) to cash-flow lending, in which security interests in projected crop or livestock returns become the primary source of repayments. Thus, the lender's assessment of risks involved in realizing those returns becomes the primary determinant of how much secondary collateral is needed (e.g., through guarantees). So, for example, as crop prices increase dramatically, repayment risk decreases and guarantees can be reduced accordingly.

Conclusions

There is abundant evidence that FmHA has grown too much and too quickly over the last five years, yielding a portfolio with unacceptably high delinquencies plus the potential for substantial loan losses and unrealized repayments in the near future. Clear and enforceable policies must, therefore, be instituted to provide mechanisms and incentives for increased private sector assumption of rural credit needs.

In addition, an improved public/private sector working relationship more properly places responsibilities according to FmHA's mission and results in such synergy as private lender sharing of experience and expertise and FmHA sharing of borrowers with graduation potential. The SBA's Certified Lender Program offers a proven example of how this can be accomplished. Furthermore, fixed-dollar guarantees ensure a loan's proper use, thereby limiting the Government's contingent liability to that amount of the loan considered to be improperly margined. Through the use of varying levels of guarantee fees charged to lenders, added incentive can be provided to reduce the amount of the loan guarantee.

Recommendations

AG 3-1: We recommend that FmHA provide its credit assistance predominantly in the form of guarantees through

Certified Private Lenders, rather than direct loans, and with use of dollar-amount rather than percentage guarantees, in combination with a graduated guarantee fee structure.

AG 3-2: Loan guarantees should be reduced from 90 to 75 percent to provide private lenders more risk exposure and thereby more incentive to make quality loans.

Savings and Impact Analysis

Estimated savings result from more efficient loan making and servicing, as well as from greater concentration on current delinquencies. Approximately \$475 million in delinquent principal and interest can be recovered per year, resulting in \$47.5 million in annual interest cost savings to the Treasury (at a 10% cost of funds). In addition, processing costs could be reduced by 50 percent (using SBA studies on direct vs. guaranteed loan processing costs) if the 130,000 direct loans expected for FY 1983 were to become guaranteed loans. This would result in a saving of \$68.25 million and would allow the reduction of 1,625 full-time equivalent employees who would otherwise be required for direct-loan processing, assuming (as given in USDA budget back-up) 40 direct loans per staff year at a cost of \$42,000 per staff year. Net total liabilities (including contingent liabilities) can be reduced by \$19.65 million (at FY 1983 levels) from the implementation of fixed versus percentage guarantees.

Note that the above savings exclude revenues from guarantee fees, as well as the expected reduction in delinquencies of any increase in loans.

Implementation

Congressional approval is required to implement the Task Force recommendations and should be sought as soon as possible.

Additional Information

This recommendation ties in with AG 1 (loan graduations) and AG 7-1 (cash management) vis-a-vis the establishment of closer working relationships with the private sector. It is also supported by recommendations made by the PPSS Financial Asset Management Task Force, which is expected to report savings as a result of shifting from direct to guaranteed loans.

AG 4: Transfer FmHA Housing Function to the Department of Housing and Urban Development (HUD)

Issue and Savings

The Farmers Home Administration (FmHA) can reduce delinquencies in farmer program loans, eliminate duplicated positions in the National Office, and offer improved technical assistance and counseling to needy farm borrowers by transferring all FmHA housing programs to the Department of Housing and Urban Development (HUD). An estimated \$294 million per year in principal and interest payments, as well as \$29.4 million in reduced borrowing cost, could be realized. An additional \$2.35 million saving per year is projected through reductions in National Office personnel. This totals \$105 million over three years.

Background

FmHA's loan portfolio and the number of programs it administers have grown tremendously in the last few years. The delinquency rate for farm loans outstanding averages 43 percent (\$10.2 billion) versus rates of approximately 3-4 percent in the private sector.

The Agency's housing loan portfolio totals approximately \$20.2 billion (excluding rural renting housing loans of \$4.2 billion). Despite the fact that no down payment is required (FmHA will loan 100% of the property's appraised value plus any legal and other costs incurred) and that the average interest rate of the existing portfolio is only 2.67 percent, current housing program delinquencies are approximately 26 percent.

The Agency has been mandated by Congress to administer programs to various constituencies in many cases "out of default," that is, the agency with the original responsibility has not adequately served the rural areas.

The original reason for FmHA's role in meeting the housing credit needs of rural dwellers was the outward migration from these areas. This has now been reversed, with the result that urban populations, businesses, and services are expanding into rural areas. In addition, much of FmHA housing is constructed around urban areas, and evidence suggests that programs are tending to lose the rural characteristic that Congress intended.

A significant trend from farm to nonfarm programs has occurred in FmHA, with the result that over 55 percent of the Agency's outstandings, 70 percent of its borrowers, and over two-thirds of its programs are now for nonfarm

purposes. FY 1982 appropriations totalled \$4.95 billion for nonfarm programs, versus \$3.91 billion for farm programs.

FmHA's original mission was to provide "supervised credit" (financial and technical management assistance) to low-income and disaster-stricken farmers who are unable to obtain credit elsewhere. Yet the magnitude and complexity of the Agency's nonfarm programs, coupled with today's uncertain and volatile farm credit, precludes FmHA staff from developing the expertise critically needed for successful accomplishment of this mission. Interviews and surveys with both private lenders and FmHA reveal a consensus that it is impossible for FmHA to continue administering existing non-farm programs and effectively provide the quality of farm credit assistance necessary to ensure viable operations for needy family farm businesses.

Methodology

The Task Force studied extensive background materials including Office of Management and Budget (OMB), General Accounting Office (GAO), Office of Inspector General (OIG), Economic Research Service (ERS), and Comptroller reports, as well as HUD and FmHA publications (bibliography on file). Next, interviews were conducted with key FmHA National Office personnel; FmHA county, district, and state directors; private bankers; and Farm Credit System representatives, as well as with PPSS HUD Task Force members. We then substantiated and supplemented findings by means of survey questionnaires, the answers to which are on file.

Findings

While over 70 percent of FmHA county supervisors have degrees from agricultural colleges, the Agency is increasingly mandated by Congress to serve nonfarm constituencies. This has caused a great deal of frustration and morale problems and has been exacerbated by the increased specialization required in today's riskier farm lending.

Private sector experiences have shown that increased loan specialization results in improved loan maintenance and reduced delinquencies. Indeed, for one major bank, increased centralization resulted in a 40 percent increase in loan maintenance efficiency. Such evidence of benefits from farm lending specialization can also be obtained from the Farm Credit System. Providing loans only to farmers, Production Credit Associates (PCAs) have grown from \$5.3 billion in 1971 to \$22.5 billion in 1982 (4.25-fold increase) and Federal Land Banks from \$7.1 billion to \$43.7 billion (a 6.15-fold increase), while experiencing delinquencies (by number of borrowers) of 3.3 and 3.9 percent respectively.

FmHA properties held in inventory have increased 5.5 times since 1975. In addition, 60 percent of existing delinquencies for FmHA's four major farm programs are over two years delinquent. Dramatic and immediate action appears to be necessary if major additional losses are to be curtailed. In comparison, in 1970 when FmHA was predominantly a farm lender, delinquencies for farm programs were approximately 21 percent.

Conclusions

The Task Force considers the fundamental problem to be FmHA's mandate for too many programs to too many constituencies. Demographic changes, the current high levels of delinquencies, and the proven benefits of having farm loans made by farm-dedicated lenders all dictate a reassessment of FmHA's mission.

FmHA has 2,200 offices covering essentially every county in the Nation, whereas HUD has only 80 field offices located primarily in urban centers. Many argue, therefore, that FmHA is the only existing system for delivery of housing loans to isolated rural communities. However, an analysis of FmHA's field staff by job code indicates that a major portion of FmHA's housing loans are being administered by personnel who do not handle farm loans. Thus, the potential for HUD to acquire existing FmHA housing loan personnel and to use FmHA's existing delivery system appears promising. To dispel concerns over HUD's dedication to the rural sector, FmHA county supervisors could file oversight reports during their nonpeak season, advising Congress and/or the Cabinet Council through the Secretary of Agriculture of HUD's effectiveness in advancing rural housing programs.

Concern has also been expressed regarding compatibility of portfolios since FmHA housing loans are primarily direct, while HUD's are through mortgage insurance. But little justification exists for a rural home loan product different from that for urban areas, and because HUD currently administers a \$320 billion portfolio with only 14,000 employees (using private lenders for loan making), versus FmHA's \$58 billion with 11,600 people, the savings from standardization and simplification of all housing programs into HUD mortgage insurance are substantial.

While returning FmHA to its original farmer mission has been repeatedly suggested, no formal proposal has been made due to apprehension over Congressional reaction. This action is now immediately necessary, however, if impending loan losses and future loan delinquencies are to be reduced.

Recommendation

AG 4: PPSS recommends that the Secretary of Agriculture and Secretary of HUD jointly propose legislation to (1) restrict FmHA from administering housing loans and grant programs and (2) transfer all existing FmHA housing loans to HUD.

Savings and Impact Analysis

As noted in the Findings, private sector experience shows that improved matching of loan type with lending expertise results in fewer delinquencies that are currently experienced in FmHA's farm loans (43%). It is reasonable to assume that, with improved matching loans and lending expertise, FmHA farm-loan delinquencies (currently \$10.2 billion) can be reduced by 10 percent per year for three years and bring the rate to 28 percent, more in line with 1970 levels. This would increase principal and interest payments to the Treasury by \$294 million per year. Correlated with recaptured principal and interest payments is an additional \$29.4 million in opportunity cost savings (using 10% cost of funds) which the Government would otherwise have to pay in interest if these delinquencies continued. Finally, elimination of National Office staff duplications is estimated to yield a saving of \$2.35 million. Note that these positions (53 net) are predominantly program oriented and are therefore considered duplications with counterparts in HUD. Administrative overhead (personnel, budget, planning, etc.) is considered to remain constant (i.e., FmHA reductions will become HUD additions). Not included in our savings is the potential that HUD expertise could result in a reduction in the 26 percent delinquency rate on FmHA housing loans.

While some out-of-pocket costs would be involved in transferring loans to HUD, increased loan maintenance efficiencies should more than offset such costs.

Implementation

This recommendation requires statutory change by Congress.

Additional Information

While we discovered substantial support for transferring FmHA functions to HUD, the PPSS HUD Task Force leaders feel that HUD is not currently in a position to assume responsibility for FmHA programs. Even though such an adjustment will yield significant long-term cost efficiencies, "HUD lacks systems to properly administer its present programs."

Hence, a phase-in period of three to five years is considered prudent. Nonetheless, the legislative process required for transferring programs is considered to take two to three years, so that efforts to realign agencies with programs should begin immediately.

Issue and Savings

Farmers Home Administration (FmHA) and Small Business Administration (SBA) loan delinquencies can be reduced, National Office staff overhead duplications eliminated, and financial assistance and counseling to needy farm borrowers improved by eliminating duplication between FmHA and SBA. An estimated \$294.18 million per year in principal and interest payments could be realized, as well as \$29.4 million per year in reduced cost of borrowing. These savings were previously identified in AG 4. An additional \$2.22 million in savings, or \$7 million over three years, is projected through personnel reductions.

Background

FmHA's loan portfolio and the number of programs it administers have grown tremendously in the last few years. The delinquency rate for farm loans outstanding averages 43 percent (\$10.2 billion) versus rates of approximately 3-4 percent in the private sector.

A significant trend from farm to nonfarm programs has occurred in FmHA, with the result that over 55 percent of the Agency's outstanding loans, 70 percent of its borrowers, and over two-thirds of its programs are now for nonfarm purposes. FY 1982 appropriations totaled \$4.95 billion for nonfarm versus \$3.91 billion for farm programs.

FmHA's original mission was to provide "supervised credit" (financial and technical management assistance) to low-income and disaster-stricken farmers who are unable to obtain credit elsewhere. Yet the magnitude and complexity of the Agency's nonfarm programs, coupled with today's uncertain and volatile farm credit, precludes FmHA staff from developing the expertise critically needed for successful accomplishment of this mission.

The Small Business Act directs SBA to "aid and assist small business concerns which are engaged in the production of food and fiber, ranching, and raising of livestock." SBA's operating procedures, Section X, state that "applicants who are denied assistance by FmHA for any reason...may contact SBA for assistance."

SBA currently has farm loans totaling \$2.965 billion (primarily in its disaster portfolio) out of a total SBA loan portfolio of \$17 billion, with no specialized farm loan staffing or training. As a result, \$102.7 million in loans is currently in liquidation (in addition to \$6.85 million charged off between 10/1/81 and 2/28/82), and \$407.6 million is currently delinquent.

Methodology

The Task Force studied extensive background materials, including Farm Credit System publications; General Accounting Office (GAO), Office of Inspector General (OIG), Economic Research Service (ERS), and Comptroller reports; and SBA/FmHA publications (bibliography on file). Next, interviews were conducted with key FmHA National Office personnel; FmHA county, district, and state directors; private bankers; and Farm Credit System representatives, as well as with PPSS SBA Task Force members. We then substantiated and supplemented our findings by means of questionnaires sent to additional private lenders (on file).

Findings

While over 70 percent of FmHA county supervisors have degrees from agricultural colleges, the Agency is increasingly asked to serve nonfarm constituencies. This has caused a great deal of frustration and moral problems and has been exacerbated by the increased specialization required in today's riskier farm lending.

Private sector experience has shown that increased loan specialization results in improved loan maintenance and reduced delinquencies. Indeed, for one major bank, increased centralization resulted in a 40 percent increase in loan maintenance efficiency.

A recent OIG audit of a community development program (Business and Industrial (B&I) Program) projects losses in that program to continue at about "51.8 percent of original loan amounts" unless corrective action is taken.

Properties held in inventory have increased 55 times since 1975. In addition, 60 percent of existing delinquencies for FmHA's four major farm programs are over two years delinquent. In 1970, when FmHA was predominantly a farm lender, approximately 21 percent of loans for farm programs were delinquent.

Portfolio analysis indicates that the larger number of lower-average-amount farm loans currently being administered by SBA more closely mirrors the extensive office network of

FmHA, whereas the greater number of larger-average-amount community development loans currently with FmHA more closely match the concentrated office structure of SBA. SBA's farm portfolio consists of 75,000 small borrowers (average loan size approximately \$30,000) whereas FmHA's community development portfolio consists of 15,000 larger borrowers (average loan size approximately \$450,000). Furthermore, existing FmHA policy is to refer smaller (under \$500,000) B&I loans to SBA, in contradiction to the philosophy that FmHA should be more attuned to isolated rural areas.

A Comptroller report to Congress cited the fact that the existence of both FmHA and SBA farm programs has allowed borrowers to "shop" for loans, and some borrowers have even been able to obtain two loans for the same purpose.

Further, an analysis of the various programs reveals that FmHA community development programs are similar to existing SBA programs, and that SBA farmer programs (90 percent direct disaster loans) closely resemble those of FmHA.

Conclusions

The Task Force considers the fundamental problem to be FmHA's mandate for too many programs to too many constituencies. Demographic changes, the current high levels of delinquencies, and the proven benefits of having farm loans made by farm-dedicated lenders, all dictate a reassessment of FmHA's mission.

FmHA district directors currently dedicate approximately half of their time to administering community development programs and half to supervising county directors. Transferring community programs will, therefore, enhance staff supervision as well as increase concentration on troubled loans, thus reducing delinquencies and improving the Agency's overall supervised credit performance.

While returning FmHA to its original farmer mission has been repeatedly suggested, no formal proposal has been made due to apprehension over Congressional reaction. This action is now immediately necessary, however, if impending loan losses and future loan delinquencies are to be reduced.

Recommendations

PPSS recommends that the Secretary of Agriculture propose legislation to:

AG 5-1: Confine community development loan programs to SBA and farm loan programs to FmHA.

AG 5-2: Transfer all existing SBA farm loans to FmHA and FmHA community development loans, including Business and Industrial, Community Facility, Water and Waste Disposal, and Site Development) to SBA.

Savings and Impact Analysis

Improved matching of loan type with lending expertise is estimated to reduce current FmHA farm-program delinquencies (\$10.2 billion) 10 percent per year for three years and thus bring the rate to 28 percent, more in line with 1970 levels. This will increase principal and interest payments to the Treasury by \$294 million per year. In addition, business and industrial program delinquencies (currently \$12.6 million) would fall an estimated 5 percent per year, resulting in an additional \$0.18 million. Correlated with recaptured principal and interest payments is an additional \$29.4 million in opportunity cost savings (using 10% cost of funds), which the Government would otherwise have to pay in interest if those delinquencies continued. Note that delinquency reductions are not considered for FmHA community development loans since their rates are currently below problem levels (under 5%) or for SBA farm loans since delinquency/liquidation reports are not comparable. Approximately 50 net personnel positions could be reduced by this transfer, thus saving \$2.22 million annually.

Implementation

Legislative changes for this recommendation should be sought as soon as possible.

Issue and Savings

Loan funds in Supervised Bank Accounts (SBACs) should be invested while they await disbursement. If interest-bearing accounts were used, estimated revenue to the Farmers Home Administration (FmHA) would be approximately \$35.7 million per year and \$119 million over three years.

Background

SBACs are bank, savings and loan, or credit union accounts established through deposit agreements entered into by FmHA, the borrower, and the depository. They are used by the FmHA county supervisor or district director primarily in order to maintain tighter control over the use of loan or grant proceeds, since withdrawals from SBACs can be made only on the signatures of both the borrower (or grant recipient) and the relevant county/district officer. Usually, SBACs are used in the "interim-construction" type of loan, for which the FmHA officer only releases loan funds

upon the presentation or receipt of vendor/contractor invoices. In addition, SBACs may be used to deposit income from the sale of security property or the proceeds from insurance, to ensure that the funds will be available for replacement of such property.

Methodology

Accurate figures on the number of SBACs and the funds therein were not available from any source within the Agency. The Task Force placed a great deal of reliance, therefore, upon a 1979-1980 study of FmHA cash management performed by a private consulting company--ADP Network Services, Inc.

In addition, information was gathered from interviews with relevant National and St. Louis Finance Office employees as well as from other field interviews. Finally, qualified legal counsel was obtained in order to clarify certain policies and agreements currently in place.

Findings

The "partial advance" feature of the loan-disbursement system used by the FmHA Finance Office allows approved loans to be disbursed in multiple or partial advances. This capability to request Treasury checks on an as-needed basis should reduce the need for SBACs, with the result that they "will be used only in rare instances." Interviews revealed, however, that the tardiness of Treasury checks has resulted in greater use of SBACs (e.g., as an interim depository for funds awaiting loan closing).

With the exception of records maintained at the local county offices, no data exist as to the amount of loan and grant funds held in SBACs. The ADP Network Services study mentioned above found that approximately \$652 million was in SBACs established by county or district offices on any one particular day. There is no reason to believe that this amount has decreased in recent years and, based upon field interviews, this figure may be somewhat understated.

The survey further found that an estimated 60 percent of SBAC deposits have an average life of 25 days. The remaining 40 percent is generally disbursed the same day the funds are received. The average SBAC deposit is \$49,148.

In one field interview, the county supervisor stated that SBACs were generally used for all farm-operating loans in order to maintain tighter control over the use of loan proceeds. This county had 30-35 SBACs in use, some of which had reportedly contained balances for up to three years.

Current procedures allow for the deposit of SBAC funds into interest-bearing accounts which are established through the execution of an Interest-Bearing Deposit Agreement. Field interviews and discussions with National Office personnel revealed, however, that little, if any, use is made of these accounts. Indeed, most of those interviewed were not aware that such procedures existed.

Conclusions

It appears that SBACs are being used by FmHA field offices beyond the original, stated purpose for which they were established. To the extent that they perform a useful function in allowing greater control over the use of loan proceeds, funds should be invested in risk-free, interest-bearing accounts. Currently, it appears that this is not being done.

Recommendation

AG 6: The Administrator of FmHA should direct all county supervisors and district directors to use interest-bearing SBACs, or otherwise invest loan proceeds awaiting disbursement, to the maximum extent possible. Such accounts must be liquid and relatively risk-free; for example, in Government-insured (Federal Savings and Loan Insurance Corporation or Federal Deposit Insurance Corporation) checking-plus-interest accounts or in new bank-offered money-market funds. In addition, the Administrator should require the regular reporting of funds held in SBACs and the purpose thereof, in order to ensure that these accounts are not overused or abused.

Savings and Impact Analysis

Annual net interest revenue will be \$35.7 million at a conservative 5.5 percent interest rate. This revenue is based on an average balance in SBACs of \$652 million, as was found in a 1979-1980 survey. Based on PPSS interviews, this may be a conservative estimate of SBAC balances, and hence a further conservative estimate of savings.

Implementation

Since current procedures and regulations allow for the investing of SBAC deposits, the recommendations contained herein can be implemented immediately through the existing authority of the Administrator of FmHA.

Additional Information

Who should receive interest earned in a SBAC? Since borrowers begin paying interest (albeit at subsidized or below-market interest rates) from the date of loan closing whether funds have been released from the SBAC or not, should interest earned be for the benefit of the borrower or FmHA? After reviewing current documents and regulations, legal counsel suggests that the borrower is not disadvantaged in any way by FmHA investing the SBAC deposit, and since he/she is obtaining a loan at below-market interest rates, a strong argument can be made for allowing FmHA to be the beneficiary of any interest earned from such an account.

Note that an alternative solution to the problem of controlling loan disbursements is through the use of "letter credit" funding, which is currently being used to a limited extent with grants to states.

AG 7-1: Decentralizing Cash Collections

Issue and Savings

Farmers Home Administration (FmHA) collections from loan repayments can be accelerated and improved by decentralizing the collection process. Annual interest and other cost savings of \$17.4 million, or \$57 million over three years, and recovered delinquent principal and interest of \$44.1 million will result.

Background

Collections arising out of loan repayments are received and processed in one of three ways:

- * Direct payments to the St. Louis, Missouri, Finance Office--Most rural housing program borrowers with monthly amortization schedules mail a check or money order to the St. Louis Finance Office, which then processes and deposits the payment received with the St. Louis Federal Reserve Bank for same-day credit to FmHA. The procedures involved are automated to a certain extent, due to the large volume of transactions received.
- * Payments to the local county/district office deposited in St. Louis, Missouri--All other program borrowers mail or deliver payments to one of the county or district offices, which tallies, verifies, and enters such payments received on a Schedule of Remittances. Any cash received is converted to a money order or bank draft, and all

payments and remittance schedules are then forwarded by regular U.S. mail to the Finance Office for deposit and posting to borrowers' accounts. Since the volume of transactions handled in this manner is significantly less than that of direct payments, this process is almost entirely manually performed.

- * Payments to local county/district offices deposited in local Treasury accounts--A relatively insignificant amount of county office collections is deposited by the county office in Treasury General Accounts (TGAs), which are Treasury accounts authorized and maintained at a local depository (bank). Payments received by certain county offices are deposited into the local TGA, and the deposit slip and Schedule of Remittances are forwarded by the county office to the Finance Office for processing. FmHA currently uses only 85 TGAs. The Treasury currently reimburses participating banks through the allowance of a one-day float, as well as interest-free compensating balances based upon the number of transactions processed.

Methodology

Since cash management was recognized as a major issue within the U.S. Department of Agriculture Task Force as well as within the cross-cutting Financial Asset Management (FAM) Task Force (cross-cutting), it was necessary to ensure adequate coordination in this area. For this reason, a member of the cross-cutting task force was assigned on a temporary basis to work on and assist in coordinating cash management recommendations for FmHA.

Data were gathered from interviews with relevant personnel within FmHA and USDA, and one member of the Task Force visited the Finance Office in St. Louis to observe the procedures actually being followed. Status reports and other management documents and reports were examined in order to determine the current cost and float involved in cash collection procedures.

Findings

For the year ended December 31, 1981, a total of \$7.2 billion was collected from loan repayments as follows:

Table II-3
Loan Repayments

Type of Payment	Dollar Volume (000s)	%	Transaction Volume (000s)	%
County Office payments 1/	\$6,056,056	84	3,234	27
Direct payments	1,160,269	16	8,774	73
Total	\$7,216,325	100	12,008	100

1/ Includes approximately \$376 million in TGA deposits.

A detailed analysis of the FmHA "processing float" (i.e., time taken for the Finance Office to deposit receipts) shows a minimum of 3.2 days for county office payments and 2.2 days for direct payments. Mail float (i.e., the time taken for collections to be sent from the field office to the Finance Office) was found to average approximately three days.

Interviews with FmHA officials and USDA's Debt Management Policy Committee revealed that numerous studies and pilot programs have been undertaken in the last few years in the area of cash management, but they have produced no tangible benefits. In addition, in many cases the objective of the study or pilot program was increased centralization in St. Louis.

Conclusions

Under current procedures, receipts are not separated from the accounting function at an early enough stage. Cash collections have therefore become centralized with the accounting system in St. Louis, with the result that there is an unnecessary and excessive float of an average of at least 6.2 days (and more likely longer) in mail and processing time (Float on direct payments is approximately 2.2 days). The float could be reduced to 1 day for each type of payment, that is, a saving of 5.2 days for local payments and 1.2 days for direct payments.

Any recommendations for improved cash management must take into account current accounting system and Treasury constraints, as well as the ease of implementation and the burden on county and Finance Office personnel. Ideally, therefore, a more efficient cash management system should be as simple as possible (for borrower and FmHA) and make use of private sector resources to the maximum extent possible.

Very few tangible benefits appear to have resulted from the many pilot programs and studies undertaken. A tendency toward "overanalysis" has prevented the implementation of any major cash management improvements. In addition, the fundamental direction of FmHA seems to be the encouragement of more and improved use of direct payments or increased centralization.

Recommendation

AG 7-1: FmHA should decentralize all collections by (1) separating and depositing payments received at the local level for all county/district payments and (2) requiring, where appropriate, that direct or monthly payment borrowers authorize their banks to regularly debit their checking account on the payment-due date and forward such funds to Treasury for credit on the following day.

Savings and Impact Analysis

Estimated yearly cash savings are as follows (assume 10% cost of funds):

- * County office payments: A 5.2-day float reduction at \$22.7 million in average daily receipts would accelerate the receipt by Treasury of about \$118 million. At a 10 percent cost of funds, \$11.8 million in interest costs would be avoided.
- * Direct payments: A 1.2-day float reduction at \$4.6 million in average daily receipts would accelerate receipt by Treasury of about \$5.6 million. At a 10 percent cost of funds, \$0.6 million in interest costs would be avoided.
- * Reduced processing costs of \$650,000, a reduction of 45 staff years.
- * Interest savings from the expected recovery of delinquent debt of \$4.4 million.

The estimated yearly reduction in delinquent debt which is less than 60 days past due would result in the recovery of approximately \$44.15 million in delinquent principal and interest.

Implementation

As already mentioned, it is necessary to first obtain Treasury approval for an agency's cash-management system. There are currently no Treasury regulations governing the "automatic debit" type of collection. In preliminary

discussions with Treasury officials, agreement in concept was obtained for these recommendations. Also, Treasury is expected to propose a "lock box" system, which is in use in the private sector and has merit. Nevertheless, successful implementation is still possible in the short term and can be accomplished through the existing authority of the Administrator of FmHA.

Additional Information

While this recommendation can be implemented in the short term, various constraints nonetheless exist (e.g., Treasury approval and the formulation of contracts and pricing structures). For this reason, immediate changes in the current cash-management procedures at the Finance Office are recommended as a related issue and are contained in the Issue and Recommendation AG 7-2.

The use of private banks as depositories for FmHA consolidating accounts can also be tied into Issue and Recommendation AG 3, which deals with the Agency's relationship with the private sector.

AG 7-2: Decrease Float in Cash Collections Processing

Issue and Savings

Float arising out of Farmers Home Administration's (FmHA's) cash collections can be reduced through changes in current operating procedures. If emphasis is redirected toward depositing the large-dollar/low-volume collections (county office payments) before the small-dollar/high-volume collections (direct payments), an estimated saving of \$8.2 million per year could be achieved while decentralization is being accomplished for a total of \$27 million over three years.

Background

Issue and Recommendation AG 7-1 recommends decentralizing the deposit of collections at the local county office level. This issue (AG 7-2) is not offered as an alternative to decentralization, but should rather be considered as an interim step which can be implemented immediately for quick cost savings.

Findings

Since the issue addressed herein deals only with the current operating procedures being used by the Finance Office in St. Louis, Missouri, only the "processing float" is considered (i.e., the mail float and other float inherent in

the current system are excluded). As noted in recommendation AG 7-1, the processing float (i.e., the difference between the date the check is received by the Finance Office and the date it is deposited with the Federal Reserve Bank) is 3.2 days for county/district office payments and 2.2 days for direct payments.

For FY 1982, the Finance Office allotted 84.2 staff years for the processing of direct payments and 27.6 staff years for county office payments. Actually, during this period 78.88 staff years and 29.63 staff years, respectively, were used. Therefore, only 27.3 percent of personnel resources was actually devoted to the processing of county-office payments.

The processing of direct payments has become increasingly automated with the introduction and use of automated mail-opening machines and "CheckMate" equipment (used to read and process checks). County office payments, however, are processed almost totally manually.

While 73 percent of the volume of transactions is in the form of monthly direct payments to the Finance Office, 84 percent of the dollar volume is derived from payments to the local county/district office. The average amount per direct payment is approximately \$130-\$134, whereas the average county office payment is approximately \$1,810.

An in-depth analysis of Finance Office records shows that the backlog (in dollar terms) of undeposited collections is greater for the county-office payments than for the direct payments, regardless of whether the volume of collections received is high or low. For example, the backlog of undeposited county-office collections on January 4, 1982 (peak-volume period), the backlog of undeposited county-office collections was \$27.6 million, as opposed to \$965,000 for direct payments.

The number of days of backlog (on the basis of the volume of transactions) was examined for the period April 15 to August 15, 1981. This revealed that in almost 90 percent of the cases, the backlog of direct payments was less than or equal to the backlog of county-office payments.

The reasons cited in various interviews for backlogs of county-office deposits are the manual nature of the processing, the higher number of discrepancies, and the lack of steady personnel.

In early 1982, a study of the work flow of Finance Office collections was undertaken in order to determine whether or not a third shift for processing direct payments

and a second shift for processing county-office payments could be justified. This study's preliminary indications did not support the establishment of additional shifts, but did suggest some improvements in existing operating procedures. One such improvement mentioned was the "feasibility of depositing funds received with the Schedule of Remittances, before balancing/reconciling schedules. This process represents a significant change in the handling and control of Schedules of Remittances in the County Office (Collections) Units...." The Finance Office will continue this study into August 1982 and then begin another feasibility analysis on the specific issue quoted above.

Conclusions

It is apparent that the Finance Office is currently emphasizing the processing of a larger volume of direct payments as opposed to the larger value of county-office payments. The former provides approximately three times as many transactions as the latter and consumes approximately three times the amount of personnel resources and virtually all the automation equipment. The average processing time (i.e., time to deposit) is 3.2 days for county office payments and 2.2 days for direct payments. While ideally no float should exist (because collections should be deposited at the local level as recommended in AG 7-1), the actual interest cost arising out of delays in depositing a county-office payment is approximately 13.5 times as high as that resulting from delays in depositing a direct payment.

In addition, although checks are stripped from accounting documents and deposited before posting to the borrowers' accounts, a time-consuming editing, balancing, and reconciling process takes place prior to this. Surely receipts or deposit slips could serve the same function as the actual check in the balancing/reconciling process.

Recommendations

The Administrator of FmHA should immediately direct the Finance Office to:

AG 7-2-1: Give higher priority to the processing of county-office payments than to direct payments in order to ensure that no backlogs ever exist in this area. To this end, personnel should be diverted from direct-payment processing on an as-needed basis.

AG 7-2-2: Separate and deposit all county-office payments before processing, using deposit slips/receipts in their place (for balancing, reconciling, etc.).

Savings and Impact Analysis

Using the same daily receipt and 10 percent cost of funds assumptions as in Issue AG 7-1, the 3.2-day and 2.2-day float reductions for county and direct payments, respectively, would yield gross savings of \$8.3 million. Assuming less than \$100,000 in Treasury costs to implement this recommendation, a net saving of \$8.2 million should be realized.

Implementation

The above recommendation can be implemented immediately through the existing authority of the Administrator of FmHA.

Additional Information

Support was given to this recommendation by the Deputy Director of the Finance Office.

AG 8: Collect Credit Report Fees

Issue and Savings

The Farmers Home Administration (FmHA) should collect a credit-report fee from loan applicants. If a \$15 fee were to be collected, approximately \$7 million could be saved per year and \$23 million over three years.

Background

FmHA procedures state that county supervisors "will verify the information furnished by the (loan) applicant and record and assemble additional information needed to properly evaluate the applicant's qualifications and credit needs." Such additional information is often gathered from credit reports.

A credit report from a private credit bureau or reporting agency is usually obtained for each initial housing-loan applicant. Credit reports are less frequently required of farm-loan applicants, since in many cases these applicants may have already established a credit history or relationship with FmHA.

Current FmHA regulations prohibit the charge of an application fee per se. Applicants for whom a loan, however, is approved and a credit report obtained are charged a \$12 fee to cover the cost of the report, regardless of the actual cost to FmHA. This fee is currently deducted from the initial loan proceeds. Unsuccessful applicants are not

required to reimburse FmHA for any out-of-pocket expenses, including the cost of credit reports.

The Agency currently faces a number of problems caused, in large part, by the increased work load resulting from the tremendous growth in loans and programs. A recent work-measurement study performed by FmHA points to a severe "understaffing" relative to this growth. In addition, the numerous and growing delinquencies and the lack of loan graduation suggest that adequate loan servicing and management assistance to borrowers are not being effectively provided.

Such problems are exacerbated by the fact that all applications (even those from clearly ineligible or insincere applicants) are required to be received and reviewed.

Methodology

The Task Force interviewed field and National Office personnel and reviewed reports and FmHA lending procedures. Further, formal suggestions submitted by field staff to the National Office were reviewed. One such suggestion by Larry E. Mirrill, Assistant District Director of Bryson City, North Carolina recommended that all rural-housing loan applicants be charged a \$12 fee to partly cover the cost of a credit report.

Findings

In FY 1981, FmHA paid approximately \$2.53 million for credit-bureau reports for loan applicants. Of this amount, \$748,000 was recovered from borrowers, resulting in a net outlay for the period of \$1.78 million. The Agency ordered approximately 156,000 reports at an average cost of \$16.23 per report. The average cost per report is expected to exceed \$18 in FY 1982 and \$20 in FY 1983.

A great deal of valuable staff time appears to be wasted on casual or insincere applications. Certain county, district, and state officers interviewed claimed that as many as 25 percent of all rural-housing loan applicants did not seriously intend to obtain financing from FmHA and did not have any specific house or property in mind. A county supervisor felt that approximately 50 percent of all applicants were "not really serious about getting the loan."

A General Accounting Office (GAO) report of October 7, 1977, recommended that FmHA "charge applicants for the cost of credit reports at the time of application." The GAO, in formulating this report, surveyed 60 mortgage lenders in six metropolitan areas throughout the country to determine the

general practices followed on credit reports. Included in the sample were "many businesses that made loans under the Housing and Urban Development (HUD) and Veterans Administration (VA) home loan guarantee program." GAO found that 63 percent of the lenders surveyed charged applicants for the cost of credit reports even when the applications were disapproved. Furthermore, this report cited the fact that "the number of applications for individual housing loans withdrawn or rejected has risen sharply."

Finally, in a Semiannual Report to Congress, the Office of Inspector General (OIG) stated:

In March 1978, OIG reported that the Farmers Home Administration credit report expenses escalated from \$130,000 in fiscal year 1972 to a projected annual rate of \$1 million in fiscal year 1977. These costs resulted largely from a 1972 change in the Farmers Home procedure of no longer requiring unsuccessful loan applicants to pay for credit reports. If the Agency had implemented OIG recommendations, it could have saved about \$5.8 million during fiscal years 1978 through 1981.

Conclusions

It is clear that county personnel are burdened by an excessive work load, with the result that inadequate attention is being paid to reducing current delinquencies, increasing graduation of loans to the private sector, and providing supervision and assistance to existing borrowers. One way to relieve this burden is to reduce the number of "casual" applications which are required to be received and reviewed. The charge of a nominal fee to applicants for whom a credit report is obtained could easily accomplish this purpose, as well as allow the Agency to recover a greater portion of its out-of-pocket expenses.

Although the majority of applicants will have been unable to obtain financing from private sector sources, all applicants should be made aware of the responsibilities and obligations which are related to a loan request. Certainly, if a borrower cannot afford to reimburse FmHA a nominal fee or is not so inclined, he/she would likely be an unacceptable loan risk to the Government. In addition, the payment of a credit-report fee demonstrates the applicant's seriousness or lack thereof in obtaining a loan from FmHA.

Recommendation

AG 8: The Administrator of FmHA should require that all applicants for whom a credit report is obtained reimburse FmHA for the cost of such a report. To this end, it is

recommended that applicants for all programs be required to pay a fee of approximately \$15 (to be adjusted periodically to reflect the average cost per report) directly to FmHA with the submission of an initial application.

The FmHA loan officer with the relevant loan authority should have the discretion to waive this fee when a credit report is not deemed necessary or appropriate (e.g., the applicant has already established a credit history with FmHA).

Savings and Impact Analysis

Based upon (1) an average cost to FmHA of \$18 per report, (2) a \$15 fee charged to applicants, and (3) a net reduction of 25 percent in the number of applications processed:

- * Recovery of FmHA out-of-pocket expenses is estimated to be \$1.7 million per annum.
- * Savings from the reduced number of applications processed are estimated at \$5.3 million per annum.

Therefore, total net yearly savings from implementing this recommendation are estimated to be approximately \$7 million.

Implementation

This recommendation can be implemented immediately through the existing authority of the Administrator.

Additional Information

While the proposed \$15 fee does not fully cover credit report costs averaging \$18, a 25 percent fee increase, as well as extending fee coverage to all applicants for whom credit reports are required, is considered the maximum practical increase at this time. The expected loss to the Government from credit-report activity is expected to decline from over \$2 million to about \$350,000 annually. A goal of moving toward recovery of full costs should be established.

It should be noted that savings from collecting credit report fees will also be reported by the cross-cutting PPSS Financial Asset Management Task Force.

B. FOOD AND NUTRITION SERVICE (FNS)

Overview

The food assistance programs administered by the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) include food assistance to families and children and are operated in cooperation with state and local governments.

The Food Stamp Program helps low-income consumers buy more food of greater variety to improve their diets. They receive coupons that are used to purchase food at any authorized retail food store. Begun in 1961 as a pilot program, food stamps are now available to low-income families in every county in the United States. About 22 million people participate in the Food Stamp Program.

The National School Lunch Program encourages schools to serve nutritious, moderately priced lunches. Participating schools agree to serve a lunch which meets the nutritional standards set by the Secretary of Agriculture. Schools also agree to provide lunches free or at reduced price to children from low-income families.

The School Breakfast Program, which is similar to the lunch program, provides nutritious breakfasts to school children. Currently, the program serves breakfasts to about 4 million children. About 86 percent of the breakfasts are served free or at a reduced price to needy children.

The Summer Food Program provides food service to needy children during the summer or extended school vacations. Public or nonprofit, private, nonresidential institutions or residential summer camps may sponsor the program. About 2 million children take part in the Summer Food Program.

FNS expenditures account for over 50 percent of USDA's budget. The expenditure amounts to \$16 billion annually, of which \$12 billion is for food stamp benefits, \$3 billion for child nutrition programs, and \$1 billion for commodity distribution programs. Congress has specified many details in the operations that prevent programs from altering with economic changes and has authorized programs that overlap without eliminating the duplication.

AG 9: Update Family Makeup for Thrifty Food Plan (TFP)

Issue and Savings

Age and sex characteristics of participants should be included in the annual update of the Thrifty Food Plan (TFP). This change would save over \$1 billion in FY 1984 and almost \$3.5 billion over three years.

Background

The TFP is used as the base for computing benefit allotments for the Food Stamp Program. In its current form, the plan is based on a family of four consisting of a man and woman 20-54 years to age, one child 6-8 years, and another 9-11 years.

When this base "family" was determined in 1971, it was intended to reflect the average recipient household. This was the average family makeup at that time. Today's participant/household characteristics, however, are very different. The average food stamp household now consists of only 2.6 individuals. More than one-half (52%) of all recipients are children 19 years and under and the remaining 48 percent are adults--34 percent female and 14 percent male.

Methodology

The analysis plan was to develop an understanding of the rationale underlying the TFP and calculate a base cost for it. Then, attempting to reflect today's household/participant makeup, several alternative methods were developed and analyzed. These alternatives were discussed with Food and Nutrition Service (FNS) personnel, Office of Management and Budget (OMB), and Congressional Budget Office staff.

Findings

Current dollar amounts for individual age/sex categories are supplied and updated by FNS annually. Values for the four predetermined family members are added together, and this becomes the base from which maximum allotments are calculated for all other household sizes. In addition, factors to adjust for economies of scale, to reflect the observation that small households require more dollars per individual than do larger families, are applied.

Legislation for 1983 defines the family-of-four base to be 99 percent of the sum that is then rounded down. This is an attempt by Congress to lower bonus values, but unfortunately it does not include any rationale. FY 1983 monthly

TFP allotments for the four-member family will be \$253 (see Table II-4).

Table II-4
Current Methodology for Determining TFP Monthly Allotment

Age and Sex Category	FY 1983 Allotment (\$)	August 1981 Frequency (%)	Current Member Selection (\$)
Less than 1 year	\$30.40	0.2%	\$ -0-
1-2 years	34.30	4.6	
3-5 years	41.60	10.8	
6-8 years	53.00	8.6	53.00
9-11 years	66.60	9.0	66.60
Male			
12-14 years	70.80	3.5	
15-19 years	77.70	4.8	
20-54 years	75.00	10.4	75.00
55+ years	66.90	3.8	
Female			
12-19 years	63.00	10.3	
20-54 years	61.10	25.7	61.10
55+ years	55.70	8.3	
Total			\$255.70 <u>1/</u>

1/ The 1983 food stamp legislative amendments as proposed by Congress require this number to be multiplied by 99% and then rounded down to the nearest dollar, i.e., \$253.143, or \$253.

A proposal to individualize allotments, offered in the Senate mark-up session last year by Senator Hayakawa, is very similar to one examined in 1975. It represents a more radical concept since it does away with the family-of-four base and economies of scale altogether. Although this proposal providing specific and accurate allotment levels for individuals would save \$1.35 billion in FY 1983, FNS did not support it for the following reasons:

- * It would complicate certification and raise error rates.
- * In the past, Aid to Families with Dependent Children (AFDC) used age/sex specific allotments but dropped the practice because it was burdensome and error prone.

- * States would need to track the birthdays of household members and change allotments as people move into new age categories.
- * Benefits would be directed away from children and the elderly. Cost savings would come at the expense of the most nutritionally vulnerable Americans.
- * The need to gather additional data on age and sex at each household interview would increase the administrative cost of the program.

Although the above concerns about this specific proposal have merit, the following proposals overcome these objections while still bringing the entitlement in line with nutritional levels required by program participants:

- * Alternative 1--Best Four-Person Family--Rather than continuing with the four individuals who best represented a family ten years ago, choose the highest frequency categories represented by current participant demographics.
- * Alternative 2--Best Three-Person Family--Since today's household averages 2.6 people, select the three individual categories that have the highest participant frequency.
- * Alternative 3--Weighted Average Family--A base family of four would constitute the "average" participant across the entire program. A weighted average per-person benefit can be calculated across the age/sex groupings already tabulated by FNS annually. This individual benefit multiplied by four would be the new TFP base.

Conclusions

Providing nutritional benefits to households with low incomes is a stated objective of the Food Stamp Program. The TFP is the vehicle selected by USDA to determine the allotment distributed to those households. Much attention is focused on finding the nutritional requirements per individual and on updating allotments to reflect the impacts of inflation. While these latter factors are important, the most valid criticism of the Food Stamp Program is that, in practice, benefits are distributed which are well beyond stated requirements. The largest cause of this is the continuing assumption that participating households are comprised of an outdated family of four.

Recommendation

AG 9: Update the TFP annually to reflect participant age and sex characteristics in household food stamp allotments at the same time cost factors are adjusted for inflation.

When determining household size allotments each year, FNS should develop a family-of-four base by calculating the weighted-average participant value and multiplying it by four (alternative 3). The family of four will continue to be the base, multiplied by the economy-of-scale adjustment factors, as is done today. The average-participant method is chosen because it most simply and realistically reflects individual characteristics. The current method and the first two alternatives are too arbitrary and do not reflect the subtle changes in participants from year to year.

The concept of reflecting participant-population nutrition requirements and updating them annually is logical and consistent. We believe the possibilities for successfully changing the methodology are good. Political realities will require tact in educating people that current overpayments are being eliminated, and it appears that Congress may be receptive, particularly since it just lowered the TFP to the 99 percent level. This recommendation adds some substance in support of this first step and paves the way for a rational continuation.

Savings and Impact Analysis

Annual savings from the three alternatives are as follows: best four-person family, \$996 million; best three-person family, \$1,245 million; and weighted average family, \$1,040 million.

Calculations for the proposed alternative 3 are shown in Tables II-5 and II-6.

Table II-5
Calculation of TFP Monthly Allotment

Age and Sex Category	FY 1983 Allotment (\$)	August 1981 Frequency (%)	Individual Weighted Average (\$)
Less than 1 year	\$30.40	0.196%	\$ 0.0596
1-2 years	34.30	4.61	1.5812
3-5 years	41.60	10.843	4.5107
6-8 years	53.00	8.584	4.5495
9-11 years	66.60	9.036	6.018
Male			
12-14 years	70.80	3.523	2.4943
15-19 years	77.70	4.784	3.7172
20-24 years	75.00	10.376	7.782
55+ years	66.90	3.819	2.5549
Female			
12-19 years	63.00	10.302	6.4903
20-54 years	61.10	25.641	15.6667
55+ years	55.70	8.286	4.6153

Note: The individual average is thus \$60.039, which yields \$240.158 when multiplied by four for a family of four. Since the 1983 food stamp legislation amendments proposed by Congress require this number to be multiplied by 99 percent and then rounded down to the nearest dollar, the recommended base for a family of four (FY 1983) is \$237.75, or \$237.

Table II-6
Alternative Method 3 For Savings Calculation

Number of Participants per Household	Average Number of Participants (millions)	Calculation of TFP 1/ Current Method (\$)	Alternative 3 (\$)	Monthly Reduction per Household (\$)	Monthly Reduction (\$ millions) 2/
1	2.13	\$ 75	\$ 71	\$ 4	\$ 8.52
2	1.66	139	130	9	14.93
3	1.40	199	187	12	16.78
4	1.00	253	237	16	15.97
5	0.51	300	282	18	9.22
6	0.30	360	338	22	6.64
7	0.12	398	374	24	2.98
8+	0.14	455	427	28	3.98
Total U.S. monthly saving					\$78.99

Note: The total U.S. monthly saving is annualized to \$948 million, which is adjusted by a factor of 1.096 to include Puerto Rico, Guam, and the Virgin Islands for a total program saving of \$1.04 billion.

1/ Includes current economies-of-scale adjustments

2/ Calculated on unrounded data.

The decrease in entitlement allotments (approximately 6% of maximum values and 8.6% of actual bonus payments) would be distributed equally across all participant categories. No specific group, i.e., children or the elderly, will be unfairly penalized. Also, this cannot be regarded as discriminatory, since benefits are distributed without accounting for the age or sex of recipients.

Certification, error rates, and local food stamp office tasks will not be affected, since current procedures remain unchanged. Administrative costs will remain the same, since household entitlement values will be updated to reflect age/sex relationships only when cost factors are inflation adjusted. Participants will not be victimized, but rather brought in line with the overall nutrition goals guaranteeing health and well-being.

Implementation

The Food Stamp Act would have to be amended to require annual updates reflecting participant age and sex characteristics in the TFP. With Administration supports, this amendment could be implemented before FY 1984.

Additional Information

It should be noted that savings in the Food Stamp Program will also be reported by the cross-cutting President's Private Sector Survey (PPSS) Low-Income Standards and Benefits Task Force.

AG 10: Thrifty Food Plan (TFP) Economies of Scale

Issue and Savings

The economies-of-scale adjustment factors in the Thrifty Food Plan (TFP) should be revised to be more in line with the Food Stamp Program perspectives. It is estimated that if the factors were adjusted to a level more representative of the Program's nutritional objectives, there would be savings of \$252 million, or \$834 million over three years.

Background

The TFP was developed by the U.S. Department of Agriculture's (USDA) Agricultural Research Service. In January 1976, it replaced the Economy Food Plan as the basis for coupon allotment for the Food Stamp Program.

The Food Stamp Act of 1977 defines the TFP as providing "the diet required to feed a family of four persons consisting of a man and a woman twenty through fifty-four, a child

six through eight, and a child nine through eleven years of age, determined in accordance with the Secretary's calculations. The costs of such diet shall be the basis for uniform allotments for all households regardless of their actual composition, except that the Secretary shall (1) make household-size adjustments taking into account economies of scale. . . ."

The economies-of-scale adjustment factors are meant to allow for the differences between large and small households in the per-person costs and use of food. USDA has hypothesized that "large households can buy and use food more economically than small households: (a) large households buy food in larger quantities at lower unit costs, (b) they use food more efficiently with less spoilage and less food discard than smaller households, and (c) they may be more likely to use other good food management practices because of lower per capita income, frequently found in large households."

A 1965 study is the basis for the present economies of scale. If the family consists of one person, add 20 percent; two persons, add 10 percent; three persons, add 5 percent; four persons, use it as is; five or six persons, subtract 5 percent; seven or more persons, subtract 10 percent.

Methodology

In trying to determine whether the TFP is a good base for the Food Stamp Program, the Task Force thoroughly reviewed the assumptions and the scientific methods used to determine the economies of scale. Savings calculations were based on the proposed revised economies-of-scale adjustment factors.

Findings

Basic to the development of the TFP is the assumption that, in estimating the nutritive value and the cost of a plan for nationwide use, it is reasonable to use average selections of foods based on those made by survey families with relatively low food costs: "Food consumption patterns of these households are believed to represent a way of eating that would be palatable to households with limited food budgets."

This basic behavioral assumption upon which the Department bases not only the economies-of-scale factors but also the TFP itself is reinforced when the Department states:

The thrifty plan is only one of many combinations of food groups that could be developed at extremely low cost. Amounts of food groups in consumption patterns could be changed in other ways to provide nutritious diets. While such combinations would deviate further than the thrifty plan from food consumption patterns, they might be acceptable to some households.

Other plans at the same or lower cost than the thrifty plan could be developed if selections of foods within food groups were limited to only those foods which are the least expensive, rather than selections typical of those of survey households.

Nonfat dry milk costs only about half as much as fluid milk, yet provides as much or more of most nutrients supplied by fluid milk. Therefore, a plan that assumes the use of nonfat dry milk exclusively might be developed at a cost lower than the cost of the thrifty plan.

Both the TFP in general and the plan's economies-of-scale adjustment factors in particular were submitted to very rigorous scientific methods which consist of computerized techniques using quadratic programming models, as well as extensive multiple regression techniques. These methods are difficult to fault. The results are based on the scientific outcomes, however, when some judgment may have been applied. For example, when household size is regressed against the monetary value of food per person, an R^2 of 0.109 is computed. This demonstrates that only 11 percent of the variation between the assumptions and the actual data can be explained.

In more recent studies, the problem of basing the economies-of-scale factors on behavioral-survey data may be better understood. It appears that a major reason that smaller households have a greater per-person expenditure for food than do larger households is food substitution. It is also shown that smaller households generally consume larger quantities of food per person.

Conclusions

The TFP examines an extremely complex household question--how do families spend their money for food? However, it might be time to rethink some of the basic assumptions behind the plan.

The behavioral underpinnings provide a good base, but the program's purpose is to provide an adequate level of nutrition. Allowing for food substitutions based on personal preferences and allowing smaller households to consume

larger quantities of food because this behavior is woven throughout the survey data make the present adjustment factors questionable.

The economies-of-scale adjustment factors should probably be brought more in line with actual purchasing costs for different-sized households. For example, a large household will buy a larger can of peas than will a small household. Thus, there is a difference in serving sizes that should be accommodated within the plan. To allow the smaller household the luxury of buying frozen instead of canned peas, however, is improper. We did find one study that tried to determine differences in purchasing power based on family size. It suggests that the present factors are too generous.

Recommendations

AG 10: The economies-of-scale adjustment factors should be brought more in line with the actual differences in purchasing costs that occur based on family size. These factors should be based on how people should, instead of how they actually do, spend their food stamp money.

Savings and Impact Analysis

By adjusting the economies-of-scale factors to be in line with a 1972 study on differences in purchasing power for different family sizes, a savings of \$252.3 million could be achieved, as shown in Table II-7.

It should be noted that, while small households will lose between \$7 and \$8 per month that had been provided by overly generous economies-of-scale adjustments, large households will gain between \$12 and \$13 per month that is needed but not currently provided.

Table II-7
Adjustment of Economies-of-Scale Factors

Average Monthly Data					
Household Size	Scale		Incr/(Decr) in \$ Rec'd per House- hold	Number Households (millions)	Incr/(Decr) Total Costs (\$ mil- lions)1/
	Current	Proposed			
1	120	109	\$(7)	2.13	\$(14.92)
2	110	105	(7)	1.66	(11.61)
3	105	101	(8)	1.40	(11.18)
4	100	100	0	1.00	0
5	95	99	13	0.51	6.66
6	95	98	12	0.30	3.62
7	90	97	31	0.12	3.84
8	90	97	31	0.14	4.40
Monthly savings					\$19.19
Annual savings					230.26
Additional annual savings realized from households not included in above data					22.06
Total annual decrease in costs					\$252.32

1/Calculated from unrounded data.

Implementation

The Food Stamp Act of 1977 states "the Secretary shall make household-size adjustments taking into account economies of scale." Thus the implementation authorization lies within the Department and can be accomplished without Congressional mandate.

Additional Information

It should be noted that savings in the Food Stamp Program will also be reported by the cross cutting President's Private Sector Survey (PPSS) Low-Income Standards and Benefits Task Force.

AG 11: Eliminate the \$10 Minimum Monthly Benefit

Issue and Savings

The minimum monthly benefit of \$10 which is given to all one- and two-person households that minimally qualify for the Food Stamp Program could be eliminated. Over \$41 million could be saved annually, or \$138 million over three years, by implementing this recommendation.

Background

The participation rate of elderly persons in the Food Stamp Program has always been low. There are many reasons cited for this: The elderly find the "hassle" of going to the food-stamp certification office to be too much; they are embarrassed to use food stamps in grocery stores and find their use bothersome; and many elderly are philosophically against this type of welfare benefit. For these reasons and others, only 50 percent of those elderly persons who are eligible participate in the program.

Congress has been interested in trying to increase this participation rate among the elderly. The most successful method it enacted was the elimination of the purchase requirement for receiving one's monthly allotment. Another method, which was much less successful in increasing the participation rate, was the provision for a \$10 minimum benefit for one- and two-person households.

It is possible to meet the net income eligibility requirements for the Food Stamp Program, but still have too much income to qualify for any food stamp benefits. In the case of a one- or two-person household that meets the eligibility qualifications, even if the family's calculation shows that they are to receive no benefit, they will receive \$10. This is not true for households of more than two people.

Methodology

The data for this analysis are based on a national survey of households that participated in the Food Stamp Program in August 1981.

Savings are computed for one- and two-person households that should receive a benefit of less than \$10. The entire \$10 is offered for savings if the household should be receiving no benefit, and a savings of \$4 is suggested for those that should receive between \$1 and \$9 in benefit allotments. The \$4 savings is simply an average between \$1 and \$9; we believe it to be conservative.

Findings

Only 35 percent (1,466,000) of all one- and two-person households in the Food Stamp Program contain elderly persons. This means that 65 percent (2,758,000) of all one- and two-person households, those that do not contain elderly individuals, are entitled to receive this \$10 minimum benefit if they qualify for it.

There are 31,000 two-person households and 209,000 one-person households receiving the \$10 minimum benefit whose calculated benefit is zero. Furthermore, there are 195,000 total one- and two-person households that should receive between \$1 and \$9 but, because of the minimum monthly benefit rule, they are rounded up to \$10.

Conclusions

The Food Stamp Program is based upon the Thrifty Food Plan (TFP) and is designed to provide individuals with a defined level of nutrition. In the case of one- and two-person households, not only are benefits rounded up to the \$10 level, but nearly 240,000 households that have been determined to be above the TFP level by this means test also receive the \$10 minimum benefit.

The clear purpose of the \$10 minimum-benefit provision is to increase the participation rate among the elderly. It has not served that purpose, but primarily caused the distribution of extra unnecessary benefits.

Recommendation

AG 11: The Secretary of Agriculture should urge that the Administration propose the elimination of the \$10 minimum-monthly benefit for one- and two-person households.

Savings and Impact Analysis

Reducing the benefit from \$10 to an average of \$6 per month for the 195,000 one- and two-person households that have calculated benefits of \$1 through \$9 would yield annual savings of about \$10.2 million. Eliminating the \$10 per month benefit for the 240,000 one- and two-person households whose calculated benefit is zero would yield annual savings of about \$31.6 million. It is possible that these savings are understated, since many program participants may decline to participate if benefits are reduced.

Implementation

The Food Stamp Act of 1977 would have to be amended. This is a sensitive area, and may be a major hurdle, since Congress has been very careful in enacting any legislation that has to do with the elderly and since 91 percent of all elderly reside in one- or two-person households.

Additional Information

After preparing the calculations for this proposal, the Task Force became aware of the Department's stand on elimi-

nation of any benefit of less than \$10. The savings they calculated were \$86 million, and we heartily concur with this position. Although we no longer had time to research this possibility and change our recommendation, we endorse the Department's recommendation for the following three reasons:

- * The cost in administering this program could prove to be more than the benefit, extended.
- * The cost for the individual participant to obtain food stamps may also be greater than the benefit received.
- * There is a precedent for this recommendation since the Aid to Families with Dependent Children (AFDC) program does not currently pay benefits of less than \$10.

It should be noted that savings in the Food Stamp Program will also be reported by the cross-cutting President's Private Sector Survey (PPSS) Low-Income Standards and Benefits Task Force.

AG 12: Reduce Costs of Printing Food Stamp Coupons

Issue and Savings

The costs of printing food stamp coupons could be reduced by (1) redefining the individual coupon book makeup, (2) adopting a \$20 coupon denomination, (3) creating a \$100 coupon book, and (4) distributing loose \$1 coupons and eliminating the \$2 book. These changes would reduce the \$28 million annual printing costs by 32 percent and save over \$9 million each year and \$30 million over three years.

Background

The Food and Nutrition Service (FNS) spent \$28 million to have \$12 billion worth of food stamp coupons printed and packaged in FY 1982. These coupons are printed in three denominations--\$1, \$5, and \$10 coupons--and are assembled into six different packages--\$2, \$7, \$10, \$40, \$50, and \$65 books.

Coupon books are delivered to the Food Stamp Program recipients based on the participant's allotments. Regulations require that coupons presented for a food purchase be attached to their original book. However, \$1 coupons are given as change and thus can be redeemed "unattached."

If a family is to receive \$1, \$3, or \$5 in coupons, the allotment is rounded up to \$2, \$4, or \$6. This rounding up takes place for the sole purpose of using the \$2 coupon book.

Methodology

This study's primary objective in reducing printing costs was to reduce the number of individual coupons printed. This was accomplished by experimenting with different options. Each option was costed, and only the most logical options are presented here.

Developing models on a computer to test all assumptions allowed in-depth sensitivity analysis. To allow for straight comparisons, a "base" level was prepared. This is called the standardized model and was derived by computing the printing costs associated with books assembled with different numbers of coupons. These standardized book costs were arrived at through simple linear regression. Three primary assumptions went into this study:

- * Printing costs can be standardized. This assumes that there is (1) a fixed manufacturing cost and (2) a variable manufacturing cost based on the number of coupons in a particular book.
- * Coupon issuance is done by optimal means. This assumes that the minimum number of books and coupons will be supplied to each participant. Many combinations of books are possible to reach most of the benefit levels, and this optimality is necessary for computing proper savings.
- * The number of \$1 coupons issued can be cut back by 34 percent with no relative harm. We believe that there will still be enough \$1 coupons to be used for change at this level.

All of the assumptions have been supported by FNS personnel.

Findings

In 1975 the coupon denominations and book values were set at their present level. Since then minor changes in these two variables have taken place. The \$10 coupon has been printed more securely, the \$10 coupon book was instituted, and the content of the \$40 coupon book was changed to eight \$5 coupons.

The number of books the states order has changed dramatically since 1975. The elimination of the purchase requirement had a "drastic effect on issuance patterns," as does the cost of living adjustment every 12 months.

Three years ago the possibility of a \$20 coupon was considered, but the "scare of additional counterfeiting" killed the attempt in its early stages. The Office of Inspector General (OIG) had approved the use of the \$20 coupon, and this approval was substantiated by the FNS people. At that time, however, the media were investigating fraud and abuse in this program, and so the timing for the entry of the \$20 coupon was thought unwise.

Conclusions

Because of the change in food stamp issuance patterns since 1975, significant savings in printing costs can be obtained by alternative issuance methods.

From 1975 to 1981, the annual average monthly bonus per person has grown from \$21.42 to \$39.37. This is an increase of 184 percent. Since the average household size is 2.6 persons, the average household receives \$102.36 in monthly benefits. The \$100 book could be distributed to over 37 percent of participating households, and the \$20 coupon would help to keep the denomination of the food stamp coupons in line with inflation.

Recommendations

To realize substantial savings in the printing costs of food coupons, the Task Force recommends the following:

AG 12-1: Change the current book makeup. By reducing the number of individual coupon sheets that must be printed, savings can be obtained.

AG 12-2: Create a \$20 coupon. This coupon denomination is more in line with consumer spending patterns and would reduce the number of other coupons that would need to be printed.

AG 12-3: Create a \$100 book. Fewer books will have to be printed if this book is available.

AG 12-4: Discontinue the \$2 coupon book. The \$1 coupons should be distributed loose, thus reducing binding costs.

The options presented here are not a finite set, but achieve a 32 percent, or \$9 million reduction in printing

costs, while having minor, if any, impacts on the Food Stamp Program.

Savings and Impact Analysis

The savings presented take the form of various options, as shown in Table II-8. It is assumed that not all of the recommendations may be implemented at the same time. If this is the case, the savings will come in building-block fashion.

Table II-8
Potential Savings Under Various Coupon Options

<u>Recommendation</u>	<u>Printing Cost (\$)</u>	<u>Savings (\$)</u>
Standardized present method	\$28,305,066	\$ -0-
Change coupon makeup	23,280,217	5,024,849
Create \$100 book and makeup	22,697,950	5,607,116
Create \$20 coupon and makeup	20,410,879	7,894,187
\$100 book, \$20 coupon, makeup	19,798,998	8,506,068
Loose \$1's, \$100, \$20, makeup	19,251,237	9,053,829

Implementation

Section 7(a) of the Food Stamp Act of 1977 states "Coupons shall be printed under such arrangements and in such denominations as may be determined by the Secretary to be necessary." Thus, all of the above recommendations fall within the Department's authority.

Additional Information

Although studies exist that look at alternative forms of food stamp issuance, any results are years away. The Task Force's recommendations providing immediate savings, therefore, should not be jeopardized by these studies.

Any results or initial cost savings produced by these studies of alternative forms of issuance should be compared with the lower cost of these printing recommendations to make sure they are still cost-justifiable.

It should be noted that savings in the Food Stamp Program will also be reported by the cross-cutting President's Private Sector Survey (PPSS) Low-Income Standards and Benefits Task Force.

AG 13: Eliminate Overlap of the School Lunch Benefit

Issue and Savings

Federal reimbursements for free lunches could be automatically added to income calculations when determining Food Stamp Program eligibility and entitlement values. Eliminating this duplication of nutrition assistance would save \$521 million annually or, for three years, over \$1.7 billion.

Background

Current food stamp calculation laws do not account for any benefits of other Food and Nutrition Service (FNS) programs when determining the stamp entitlement value. All are supplying nutritional assistance in reaching minimum recommended daily allowance (RDA) requirements.

It is ironic that practically every other type of entitlement benefit is included as income. For example, Aid to Families with Dependent Children (AFDC), Social Security, Supplemental Security Income, general or public assistance, Veterans benefits, pensions, retirement income, unemployment or workman's compensation, and child support payments all are included as unearned income. Yet the entitlements that FNS administers are not included.

Methodology

The analysis plan was to develop an understanding of the overlap problem and then determine a reasonable approach to overcome it.

Findings

Previous legislative attempts to eliminate overlap with the School Lunch Program have dealt with subtracting the food stamp value for the five meals per week, or approximately \$10 per child. It was protested that this method did not vary the impacts to participants across income categories.

This recommendation would reflect those needs fairly, as well as reduce the duplication payment. This is done by including the school lunch benefit as income when determining food stamp eligibility and bonus value.

There is approximately \$1.736 billion in overlap of benefits for children who participate in both the School Lunch Program and the Food Stamp Program. Since 97.3 percent of the national student enrollment is in schools par-

ticipating in the School Lunch Program, all 7.714 million food-stamp students would be receiving "free" lunches.

The formula for the food stamp benefit assumes that 30 percent of a household's net income should be allocated for food. A stamp bonus value equal to the shortfall between this and a Government-defined minimum (Thrifty Food Plan) is then calculated. Since the President's Private Sector Survey (PPSS) is proposing to increase the net income amount, the entitlement value would be lowered by 30 percent of that amount, or \$521 million.

Conclusions

The duplication or overlap of entitlement benefits is a problem which has not received much attention. In searching for the "fairest" means of reducing costs, eliminating duplication should be one of the first areas examined. Recipients will not be victimized, but rather brought in line with the overall nutrition goals guaranteeing health and well-being.

Recommendation

AG 13: Include school lunch benefits as income when determining food stamp eligibility and entitlement values.

The application for food stamp forms and worksheets should be changed to include a line for "school lunch benefit." FNS would supply a standard monthly amount per child to be used from September through May. The value would equal the national school year estimate of Federal-free-lunch reimbursement per meal times 20 average meals per month. The caseworker would then simply multiply this rounded whole-dollar standard by the number of children between the ages of 5 and 17 and include it as unearned income.

Savings and Impact Analysis

Federal Government entitlements would be lowered \$521 million in FY 1983.

Households with children would receive a food stamp reduction of \$7 per month for each child, although each child would continue to receive approximately \$25 worth of food through the School Lunch Program.

Absenteeism was not included in the analysis to this point. An absenteeism rate as high as 5 percent is necessary before savings fall below \$500 million.

Administrative efforts would be only minimally increased at local food stamp offices. Adding the standard \$25 per child to unearned income would be required when preparing the application form. Benefits would be higher June through August, thus utilizing the recent implementation of retrospective accounting, which requires that States recalculate stamp benefit amounts monthly.

Implementation

Since the Food Stamp Act states that "income must be in the form of money payable directly to a household," an amendment must be made to that Act. If the Administration supports the recommendation, it could be included for implementation in the 1984 budget year.

Additional Information

An alternative suggestion would be to reduce food-stamp benefits by the total duplicative amount of \$1.736 billion. Although this may seem conceptually correct, it has never received much support. This Task Force's recommendation is more fair and realistic, since it treats the benefit as an income item much like other types of Government assistance.

It should be noted that savings in the Food Stamp Program will also be reported by the cross-cutting President's Private Sector Survey (PPSS) Low-Income Standards and Benefits Task Force.

AG 14: Eliminate Overlap in Child Nutrition Benefit

Issue and Savings

Overlapping Child Nutrition entitlements could be added to income calculations in determining Food Stamp Program eligibility and entitlement values. Eliminating this duplication of nutritional assistance will save over \$160 million annually in School Breakfast, Child Care Food, and the Summer Food Service Programs.

Background

This issue concerns the duplication of payments in the Food Stamp Program and all other Child Nutrition entitlement programs. Overlap in the national School Lunch Program was discussed in the previous recommendation. This recommendation will deal with all Child Nutrition duplications other than school lunches.

Current food stamp laws do not account for any benefits of these programs when determining the stamp entitlement

bonus value. All are supplying nutritional assistance in reaching minimum Recommended Daily Allowance (RDA) requirements. When calculating food stamp entitlements, therefore, the value of these benefits should be included as income.

It is ironic that practically every other type of entitlement benefit is included as income. For example, Aid to Families with Dependent Children (AFDC), Social Security, Supplemental Security Income, general or public assistance, Veterans benefits, pensions, retirement income, unemployment or workman's compensation, and child support payments all are included as unearned income. Yet none of the entitlements administered within the Food and Nutrition Service (FNS) are included.

Methodology

The analysis plan was to develop an understanding of the overlap problem and then determine a reasonable approach to overcome it.

Findings

It is possible (and also encouraged) for applicants to participate in multiple programs. For example, any family qualifying for food stamps can participate in the Summer Food Service; Child Care Food; School Lunch; School Breakfast; Women, Infants, and Children (WIC); and Commodity Supplemental Food (CSF) programs.

The Food Stamp Program distributes entitlements defined by the household's net income and the Thrifty Food Plan (TFP). The latter is a household cost for "an assortment of foods that represents as little change from average food consumption of families with relatively low food costs as required to provide a nutritious diet while controlling cost." Therefore, the Food Stamp Program should provide adequate nutrition for all participants except perhaps pregnant, post partum, and nursing women, who would need supplements in addition to TFP levels.

The duplication problem is indeed a serious issue as is evidenced by the following information covering the years 1978-1979:

- * 76 percent of WIC households also receive food stamps.
- * 20 percent of WIC children also receive food stamps, school lunches, and school breakfasts.

- * 69 percent of households in which children receive school breakfasts also receive school lunches and food stamps.
- * 16 percent of households in which children receive school breakfasts also receive food stamps, WIC, and school lunch benefits.

A family eligible for and receiving food stamps could also be participating in school lunch and breakfast, WIC, and Child Care Food programs. In this example, if the mother were nursing an infant, she would receive benefits of food stamps plus the WIC program. The infant (who is nursing) would receive food stamps and WIC benefits. If the mother worked, school children could receive breakfasts and lunches as well as food stamps. Finally, if the mother worked, all children under five could receive assistance for all three meals per day provided by each of three programs (food stamps, WIC, and Child Care Food).

Both the WIC and the CSF programs require that participants are certified to be at nutritional risk by competent professionals. Both programs are also designed to be supplementary to the Food Stamp Program. Because of these factors, they are not included in our recommendation.

Conclusions

The duplication or overlap of entitlement benefits (particularly in these three programs) is a problem which has not received much attention. In searching for the "fairest" means of reducing costs, eliminating duplication should be one of the first areas examined. Recipients will not be victimized, but rather brought in line with the overall nutrition goals guaranteeing health and well-being.

Recommendation

AG 14: Include benefits received from the School Breakfast, Child Care Food, and the Summer Food Services Programs as unearned income when determining food stamp eligibility and entitlement values.

Rules for calculating other income on the food stamp forms and worksheets should be changed to include benefit values for these three programs. FNS would supply a standard monthly benefit per child participating in each of the programs. The value would equal the national program estimate of Federal-free-meal reimbursement multiplied by the number of free meals received by the average participant each month. The caseworker would then simply multiply this rounded whole-dollar standard by the number of family mem-

bers participating in each program and add this total to unearned income.

Savings and Impact Analysis

Adding child nutrition benefits as income will increase the total income of families with children participating in these programs, and thus reduce their food stamp benefits by 30 percent of the child nutrition amount. Since total overlapping between food stamp and other benefits defined in this paper is estimated to be \$540 million, the 30 percent reduction in food stamp payments would yield approximately \$162 million in savings.

Because of cheating on application forms, not all savings would be realized. It will not be easy to verify whether an applicant is telling the truth when asked if the children participate in any of these three programs.

Implementation

Because the Food Stamp Program defines the allotment values by law, an amendment must be made to the Food Stamp Act. The challenge here will be to change the current requirements, which say that food stamp income should consist only of dollar payments directly to the applicant or his/her family. Up to this point, benefits in the form of food or assistance other than cash have not been allowed to be included as income.

Administrative efforts would be only minimally increased at local food stamp offices.

Additional Information

It should be noted that savings in the Food Stamp Program will also be reported by the cross-cutting President's Private Sector Survey (PPSS) Low-Income Standards and Benefits Task Force.

AG 15: Reduce Commodity Distribution and Warehousing Costs

Issue and Savings

The Department of Agriculture should (1) negotiate long-term warehouse storage rates and (2) base vendor bids on Agricultural Marketing Service (AMS) commodity purchases to be on a Freight on Board (FOB) origin and/or FOB destination. The Department will save \$11 million annually and \$36 million over three years.

Background

The AMS purchases large quantities of meat, poultry, fruit, and vegetables for use in the Food and Nutrition Service's (FNS) direct food assistance programs. It purchases these commodities primarily under Section 32 (of P.L. 74-320), surplus removal authority, although sizeable amounts of the same items are funded under Section 6 of the National School Lunch Act of 1946.

Section 416 of the Agriculture Act of 1949 authorizes the Commodity Credit Corporation (CCC) to support milk prices through the purchase of dairy products which cannot otherwise be marketed commercially at supported prices.

The Kansas City Commodity Office (KCCO) of the Agricultural Stabilization and Conservation Service (ASCS) is charged with arranging transportation for all commodities purchased and also for negotiating warehouse contracts for product storage.

Methodology

Two members of the Task Force visited the KCCO to interview personnel associated with dairy products operations. Washington AMS, FNS, and ASCS personnel were also interviewed. Telephone discussions with various public warehouse operators were held.

In addition to interviews, the Task Force reviewed the latest Government Accounting Office (GAO) and Office of the Inspector General (OIG) reports.

Findings

Government-owned dairy product stock has not fallen below 500 million pounds during the last five fiscal years. During the same period, the inventory turnover rates have averaged one turn per year.

Until August 1982, all storage contracts for processed commodities were negotiated on a per unit throughput basis. The Government was not required to maintain minimum inventories or occupy a minimum amount of storage space with individual warehouse operators. The Government could terminate contracts upon written notice without penalty.

For transporting commodities, the KCCO has yet to negotiate a rail contract, even though the Staggers Act of 1980 allows shippers and carriers to negotiate independently. Instead relies on published tariff rates. Currently, AMS purchases fruits, vegetables, and most meat products on an

FOB origin basis. In a recent study, GAO showed that lower transportation charges could be negotiated for a major portion of these shipments and suggested that pilot studies should be instituted to have all department purchases be on an FOB destination basis.

Conclusions

Evidence suggests that the Government should house commodities under long-term arrangements. Too much product inventory is stored for too long a period to rely on more expensive, short-term warehouse contracts.

Commodity vendors should have the option to bid as they wish using either FOB destination and/or FOB origin. This creates the flexibility to use the lower cost transportation alternatives available. This option allows an individual vendor the opportunity to use low-cost backhauls with an owned truck fleet, without requiring vendors to establish costly claims and traffic departments.

Recommendations

AG 15-1: ASCS should negotiate two- to five-year dairy storage contracts at a level commensurate with official Department estimates of future CCC-owned products.

AG 15-2: AMS should allow bids for commodities on an FOB origin and/or FOB destination basis.

Savings and Impact Analysis

Assuming a 15 percent reduction in storage costs (felt to be achievable by private warehouse operators), long-term storage contracts will save \$4.8 million in FY 1983 and \$15.9 million over the next three years.

Assuming a saving of \$1.70 per hundred weight (identified in GAO report CED-81-83) on the 541.5 million pounds purchased by AMS in 1982, and assuming that two-thirds of the shipments would be FOB destination, first-year transportation savings are estimated at \$6.1 million and \$20.3 million over three years.

Implementation

The above recommendations are under the control of the Department.

C. AGRICULTURAL MARKETING SERVICE (AMS)

Overview

All meat and poultry sold in interstate or foreign commerce must be Federally inspected for wholesomeness and truthful labeling. Meat and poultry sold in intrastate commerce may be inspected under state inspection programs equal to the Federal program.

Food Safety and Inspection Service (FSIS) inspectors examined more than 128 million meat animals and more than 4.3 billion birds in FY 1980. In addition, over 34 billion pounds of processed poultry products and more than 70 billion pounds of processed meat products were inspected. Meat and poultry that is unwholesome, adulterated, or mislabeled is kept out of the consumer food supply.

U.S. Department of Agriculture (USDA) compliance officers maintain constant vigilance in marketing channels to check for uninspected meat and poultry, counterfeit inspection stamps, inaccurate labels, and contaminated or spoiled products. USDA may detain any suspect product, and criminal charges may be brought against anyone in the marketing channel who violates Federal meat and poultry inspection laws.

Standards and labeling requirements are important phases of the inspection system. In FY 1980, USDA labeling specialists examined for accuracy and completeness over 104,000 label designs submitted by processors for advance approval. These specialists also make sure that ingredient statements on products list the ingredients in order of predominance.

The purpose of the Egg Products Inspection Act is to ensure that eggs and egg products which reach the consumer are wholesome and unadulterated. Egg products are used by many large manufacturers to make cakes and other prepared food products. Under the Act, the Agricultural Marketing Service (AMS) provides continuous inspection in all plants processing liquid, dried, or frozen egg products. The Act also controls the disposition of restricted shell eggs--those that might contain harmful bacteria which could cause food-borne illness.

AG 16: Poultry Slaughter Inspection

Issue and Savings

Federal appropriations for postmortem poultry inspection can be reduced while maintaining or increasing the effectiveness of such inspection. FY 1983 savings could be \$93 million, and the savings would be \$308 million over three years.

Background

The Poultry Products Inspection Act requires the U.S. Department of Agriculture (USDA) to inspect the slaughter of poultry and the processing of poultry products shipped interstate or to foreign markets. The purpose of the Poultry Act and Regulations is to ensure that poultry and poultry products distributed to consumers are wholesome, unadulterated, and properly marked, labeled, and packaged.

In 1981, Federally inspected establishments numbered 517 slaughter plants, 5,071 processing plants, and 1,567 combination slaughter and processing plants. Federally inspected production totaled 37 million pounds for meat slaughter and 15 million pounds for poultry slaughter. Inspected production of meat processing and poultry processing totaled 69 million pounds and 37 million pounds, respectively. This issue deals only with poultry slaughter inspection.

There are approximately 200 circuits, each managed by a circuit supervisor, who guides and supervises the inspectors-in-charge of the Federally inspected establishments within his or her circuit. Each inspector-in-charge is a veterinarian who guides and supervises the food inspectors within the plant. These food inspectors perform most of the "line" inspection duties. In addition to supervising the food inspectors, the inspector-in-charge also determine whether or not to condemn a carcass which is set aside by a food inspector unsure of its proper disposition.

Methodology

The Task Force reviewed a number of studies and other documents. In addition, members of the Task Force interviewed USDA plant, area, regional, and headquarters personnel, as well as knowledgeable industry personnel, and visited poultry slaughtering operations.

Findings

In July 1981, there were 7,760 full-time permanent Federal inspectors in U.S. meat and poultry plants. Of this

number, 2,665 were engaged in poultry inspection: 2,233 slaughter inspectors (29 percent of all FSIS inspectors and 84 percent of poultry inspectors), 109 processing inspectors, 15 combination slaughter and processing inspectors, and 308 veterinarians, virtually all of whom were engaged in slaughter inspection.

In FY 1981, the cost of slaughter inspection was \$221 million, 74 percent of the \$297 million Food Safety and Inspection Service (FSIS) budget. In FY 1982, FSIS budget authority was estimated at \$308 million, and the FSIS budget request for FY 1983 was \$320 million. In addition to these appropriated funds, \$35 million (approximately 10% of all FSIS expenditures) was budgeted in FY 1983 as reimbursable obligations (salary costs for overtime and holiday inspection work, which is reimbursed by the industry).

To revise meat and poultry inspection procedures, USDA makes evolutionary changes, based upon scientific studies and validated by in-plant tests. Changes are adopted only where the tests show that they improve or maintain inspection effectiveness. This procedure appears to be necessary in order to preserve public confidence in meat and poultry products.

A feasibility study performed for USDA by the School of Veterinary medicine of the Tuskegee Institute has concluded that the condemnation and disease rates of a flock of chickens may be accurately predicted through the use of predictor models based upon analysis of a large number of flock history variables. This study concluded that flocks could be correctly classified into either a high or low condemnation category over 97 percent of the time.

"A Study of the Federal Meat and Poultry Inspection System," prepared for USDA by Booz, Allen and Hamilton in 1977, recommended that a "bi-level" approach to poultry inspection be adopted. The feasibility of this system is based on the homogeneous nature of flock health.

Under the current system, there is always 100 percent inspection by some inspector. When it is done by employees, the line can move faster than when it is inspected by the lesser number of USDA inspectors. This provides the plant with an incentive for accurate inspection by its employees.

Conclusions

In evaluating proposed modifications of the poultry inspection system, the following principles have been employed:

- * Any change in the method of inspection should result in effectiveness equal to or better than that provided by current inspection methods. Although in theory a cost benefit analysis would be appropriate, the Task Force opposes any recommendation leading to reduced effectiveness and believes such a recommendation would be opposed by the public and would consequently not be approved by the Congress.
- * The cost of slaughter inspection to the taxpayer and consumer should be reduced by avoiding duplication in inspection functions between USDA and plant employees.
- * The commercial benefits of postmortem poultry slaughter inspection should be distinguished from public health benefits. As a matter of equity among regulated industries and in order to avoid endangering the use of user fees, activities that predominantly benefit the industry should either be performed by industry personnel, or, if performed by USDA personnel, should be funded through the assessment of user fees.
- * The method of inspection, the determination of whether such inspection should be performed by the industry or USDA personnel, and the method of funding such inspection should be chosen to provide incentives to the industry to improve the quality of poultry products.

Recommendations

AG 16-1: Postmortem poultry inspection should be performed by plant personnel where the Secretary determines, based upon factors including the quality of chickens slaughtered in the particular establishment, the technology and cleanliness of the equipment employed, and the commitment of its management to quality, that inspection activities would be undertaken by plant employees with the same degree of effectiveness as inspection undertaken by USDA personnel.

AG 16-2: Where the Secretary does not make such a determination, USDA inspectors would continue to perform the postmortem inspections, but user charges would be assessed to recover the full cost of such inspection.

AG 16-3: Should an audit or the daily monitoring of the in-plant USDA supervisors reveal inadequate inspection by plant employees, significant penalties would be appropriate.

Such penalties may include civil fines if existing enforcement mechanisms are not deemed sufficient.

Savings and Impact Analysis

Under this recommendation, all poultry postmortem line inspectors would either be plant employees or USDA employees whose salaries would be reimbursed through user fees. Therefore, all 2,233 poultry slaughter inspection positions would be funded either directly or indirectly by the industry. The inspectors-in-charge would still supervise the line inspectors and be paid by USDA.

The Task Force estimates that this would reduce funds appropriated for FSIS inspections by \$93 million in FY 1983, or \$308 million over three years, assuming the following:

- * Costs for any FSIS program are directly proportional to the number of inspectors in that program.
- * Poultry slaughter inspectors are 29 percent of the total FSIS inspectors.
- * The FY 1983 FSIS budget is \$320 million (excluding overtime, etc., which is reimbursed); hence, 29 percent of \$320 million, or \$93 million is assumed to be the cost of 2,233 poultry inspectors.

Implementation Steps

These recommendations require Congressional approval.

AG 17: Meat/Poultry Processing

Issue and Saving

By giving the Secretary of Agriculture discretion on the intensity of inspection of meat processing, a saving of \$8 million could be realized in FY 1984, and a saving of \$28 million in three years.

Background

Under the Federal Meat Inspection Act and the Poultry Products Inspection Act, the U.S. Department of Agriculture's (USDA) Food Safety and Inspection Service (FSIS) is required to inspect plants involved in the further processing (after slaughter) of meat and poultry. Under the Egg Products Inspection Act, the Agricultural Marketing Service (AMS) is required to provide such inspection for egg products processing plants.

Because the USDA resources employed in meat and poultry processing inspection are substantially greater than those employed in egg processing inspection, this analysis will focus principally on meat and poultry processing inspection only.

The Meat Act requires the inspection of "all" processed meat products prepared for commerce. The Poultry Act authorized, but does not require, inspection of all processed poultry products. The Meat and Poultry Acts and their regulations do not, however, specify either the method or the frequency of processing plant inspections.

As to the method of inspection, USDA has determined that the Acts require the control of carcasses and other materials entering processing plants, the supervision of manufacturing procedures and processes, and the sampling of finished products. As to the frequency of inspection, USDA has determined that the Acts require "continuous" inspection in most processing plants. This means that a USDA inspector must be on the premises daily, although not during all times when the plant is operating. A small number of plants (about 100) are inspected on a less-than-daily basis if they are small and their processing activities are limited, such as slicing or packaging and labeling.

In 1981, 6,800 establishments under Federal inspection were engaged in meat and poultry processing, up from 4,300 in 1971. The cost of inspecting these plants was \$76 million in FY 1981, up from \$28 million in FY 1971. This was 26 percent of the total FY 1981 FSIS budget of \$297 million. USDA expects current cost trends to continue and estimates that the total cost of meat and poultry inspections could reach \$380 million by 1985, unless more efficient inspection methods are found.

Methodology

Based on a review of relevant studies, reports, and testimony on this issue, and discussions with USDA personnel and persons in the private sector knowledgeable about meat and poultry processing, the Task Force has determined that granting the Secretary authority to vary the intensity of inspection of processing operations according to the need for such inspections will increase both the effectiveness and efficiency of processing inspections. Because of the existence of improved modern processing technology and quality control systems, daily inspection of processing plants is no longer always either necessary or desirable. Random, unannounced, periodic spot checks can be at least as effective as continuous inspection in ensuring food quality. If continuous inspection is not needed, scarce inspection

resources can be concentrated on areas where more intensive inspection is needed to ensure that consumers receive only wholesome, unadulterated, and properly packaged and labeled meat and poultry products.

Findings

Granting discretion to the Secretary of Agriculture to inspect processing plants for meat and poultry products on a less-than-daily basis was recommended in 1977. A consultant to USDA, Booz, Allen and Hamilton, recommended that a monitoring approach to processing inspection be instituted under which an inspector uses a firm's quality control records, accompanied by verification samples, and a progressive economic penalty system.

In 1977, the Government Accounting Office (GAO) recommended that the Secretary of Agriculture be authorized to make periodic unannounced inspections of meat and poultry processing plants. In 1981, GAO endorsed its earlier proposal. In 1982, USDA proposed legislation granting such authority.

The studies by USDA's consultant, by the GAO, and by USDA concluded that the effectiveness of processing inspection could be increased, while reducing inspection costs, by providing the Secretary discretion to vary the intensity of processing inspection.

Legislation has been introduced in both Houses of Congress which would amend the Federal Meat Inspection Act, the Poultry Products Inspection Act, and the Egg Products Inspection Act to authorize the Secretary of Agriculture to determine the degree of inspection to be conducted in meat, poultry, and egg processing plants. This legislation, the Meat, Poultry, and Egg Products Inspection Amendments of 1981, would provide the Secretary with discretion to inspect processing plants on less than a "continuous" (daily) basis.

Conclusions

Less than continuous inspection meat, poultry, and egg processing plants can be a more effective and efficient method of ensuring the safety and wholesomeness of processed products. The Secretary of Agriculture should have authority to permit less than continuous inspection under regulations based upon the criteria set forth in the pending legislation. Only one inspection legend should be used for all processed products; no distinction should be made between plants inspected on a continuous basis and plants inspected on a less than continuous basis. The creation of new enforcement mechanisms and more specific Congressionally

mandated standards for determining when to permit less than continuous inspection do not appear to be needed. If problems arise, remedies exist through the courts, Congressional oversight, or corrective amendments.

Recommendations

AG 17-1: The Secretary of Agriculture should have discretion to determine the intensity of inspection of meat, poultry, and egg products processing operations (further processing after slaughter or egg breaking).

AG 17-2: The Secretary's discretion should be exercised in accordance with regulations based on factors including the nature and frequency of processing operations, the plant's product monitoring system, and the plant's compliance history.

AG 17-3: A separate inspection legend should not be employed for plants inspected on a less than continuous basis.

Savings and Impact Analysis

1. Cost Reductions (USDA estimates)

- * Meat and poultry processing inspections for FY 1984: \$6.9 million
- * Egg products inspections for FY 1984: \$1.5 million (egg products inspections cost \$7.6 million in FY 1981)

2. Personnel Levels (USDA Estimates)

- * Meat and poultry processing inspectors for FY 1982: 2,215; for FY 1989: 1,077. This reduction will be accomplished through normal attrition, reassignment to slaughter inspection positions, and a temporary hiring freeze to begin in FY 1983.
- * Egg products inspectors: reduction of 25 inspectors.

PPSS review of USDA estimates, though not in full detail, tended to confirm their estimated cost savings, assuming that inspection costs are roughly proportional to number of inspectors.

Implementation

These recommendations require Congressional approval.

AG 18: Department of Agriculture (USDA)/Food and Drug
Administration (FDA)/States Triplication
of Dairy Plant Inspections

Issue and Savings

The present "triplication" of dairy plant inspections (Grade A bulk handling facilities and milk manufacturing plants) by the Department of Agriculture (USDA), the Food and Drug Administration (FDA), and state agencies can be eliminated while maintaining the effectiveness of such inspection.

By using state inspectors in all states, by merging the dairy plant inspection function of FDA into USDA, by reducing the number of Federal employees involved in dairy inspection and grading, and by extending the use of user fees to all dairy inspection functions, three year cost savings of \$5.3 million can be realized.

Background

Under the Public Health Service Act, as amended, the Milk Safety Branch, Division of Cooperative Programs, Department of Compliance, of the FDA Bureau of Foods conducts regular reviews of the activities of farm and dairy plant inspectors of the states. The purpose of these reviews is to ensure that the rating of the sanitary status of Grade A milk supplies (milk for bottling) and the bulk handling facilities for such supplies is uniform from state to state. The FDA verifies the effectiveness of state inspectors who certify Grade A dairy farms and dairy plants in accordance with the Pasteurized Milk Ordinance (PMO). The PMO is a model code issued by the Public Health Service of the Department of Health and Human Services (HHS) and adopted and enforced by the states.

Under the Agriculture Marketing Act of 1946, as amended, the Dairy Division of the Agricultural Marketing Service (AMS) performs the same inspection and certification functions for milk "manufacturing" plants, where either Grade A or "manufacturing" grade milk is processed into butter, cheese, or nonfat dry milk. In the 26 states with which AMS has no cooperative inspection agreement, the inspections are carried out by AMS personnel. In the 24 states with which AMS has executed cooperative inspection agreements, state personnel actually perform the USDA inspections under the supervision of the AMS.

Virtually every milk manufacturing facility in the United States is located on the premises of a Grade A bulk

handling facility. Therefore, inspectors for both the FDA and AMS programs visit virtually all dairy plants.

It should be noted that a general distinction exists between the Dairy Division and the Poultry Division of USDA in the implementation of grading services. Generally, the Poultry Division contracts with states for supervision and licenses industry employees to physically perform the service. By contrast, the Dairy Division, in major dairy producing states, performs the task using Federal employees.

Methodology

The Task Force interviewed AMS and FDA personnel and officials of the State of Wisconsin's departments of Agriculture and Public Health.

Findings

1. FDA Inspection

Virtually all inspection of Grade A plants is accomplished by the states. FDA's function has been almost exclusively to maintain uniformity from state to state in the interpretation of regulations for quality Grade A milk supplies and facilities to receive and handle those supplies.

2. AMS Inspection

AMS conducts inspection and provides grading services to the milk manufacturing industry in one of two fashions:

- * AMS directly inspects 616 milk manufacturing plants (74% of all such plants) in the 26 states without cooperative inspection agreements, including the three largest milk manufacturing states, Wisconsin, Minnesota, and Iowa.
- * AMS supervises state inspections of 218 plants in the 24 states in which it has executed cooperative inspection agreements. In these states, user fees are collected by the states; 25 percent of these fees are paid to AMS to cover the cost of supervision and 75 percent is kept by the state as compensation for its inspection costs.

While AMS terms its inspection system "voluntary," qualification under its plant inspection program is a prerequisite to sales of butter, cheese, or nonfat dry milk to the Federal Government or to the Commodity Credit Corporation (CCC) under the milk price support program. Because of chronic dairy surpluses, virtually no dairy product manufac-

turer can rely solely on commercial markets; products must be sold to CCC. AMS inspection and grading is therefore really commercially mandatory.

3. AMS/FDA/State Overlap

All states license dairy plants. Compliance with Federal standards is a minimum requirement for the achievement of state licensing standards. Dairy plant operators, therefore, must submit to inspections by at least three different agencies (in some cases they are also subject to local health inspections), all relating to the same general conditions of sanitation and regulatory compliance.

4. Personnel Levels

The staff levels in FY 1982 were, for FDA Grade A plant inspection, 28 staff years for FDA staff and 1,025 for state inspectors. For AMS manufacturing plant inspection, the levels were 136 full-time and 50 intermittent staff years for AMS staff and 96 for state inspection in cooperative agreement states. The number of state inspectors in states that do not have cooperative agreements is unknown. The State of Wisconsin alone, however, employs 91 milk plant inspectors.

Conclusions

The present system of dairy plant inspection results in unnecessary overlap in the functions of the AMS, the FDA, and the states.

The states should provide the personnel necessary to perform the dairy farm and dairy plant inspections called for under the PMO, the AMS voluntary inspection and grading program, and the licensing and regulatory requirements of the states. A single plant visit by a single state inspector could meet all Federal and state requirements.

The two Federal programs, the inspection of Grade A milk handling facilities and of milk manufacturing plants, should be supervised by one Federal agency, the Dairy Division of AMS.

Recommendations

AG 18-1: The function and personnel of the Milk Safety Branch, Division of Cooperative Programs, Department of Compliance of FDA's Bureau of Foods should be transferred to the Dairy Division of AMS.

AG 18-2: The Dairy Division of AMS should conclude agreements of cooperation with all of the states to permit the USDA inspection and grading services now performed by Federal personnel to be performed by state personnel under Federal supervision.

AG 18-3: The size of the Dairy Division of AMS should be reduced to that necessary to supervise the state inspectors operating under cooperative agreements and the PMO.

Savings and Impact Analysis

Elimination of FDA inspection would save the Federal Government \$1.5 million per year.

By relying entirely upon state cooperative inspection agreements rather than the current mix of USDA/state inspections, the entire cost of inspection will be borne by the states and will be reimbursed entirely by user fees collected by the USDA. It is expected that approximately 20 staff positions will be required to carry out this program, down 116 from the 136 under the old system, or 85 percent. This new setup is estimated to save approximately \$1.6 million in annual savings.

Implementation

It is not anticipated that any legislative action would be required to implement this recommendation.

The transfer of the FDA unit to USDA (AMS) could be accomplished through a joint decision of the Secretaries of USDA and HHS and the Director of OMB and through revision of affected regulations.

The negotiation of cooperative Federal/state agreements with the states not currently subject to such agreements is merely an extension of the present policy of the Dairy Division of AMS.

AG 19: Prior Approval Of Labels

Issue and Savings

Federal appropriations for the regulation of the marketing and labeling of meat and poultry products can be reduced, while maintaining or increasing the effectiveness of such regulations, by replacing premarket approval with preuse filing of labels. Budget savings in FY 1983 could be \$1 million, and \$3.7 million in three years. More substantial savings would accrue to the industry and consumers.

Background

1. USDA Prior Approval Program for Meat and Poultry Labels

Under the Federal Meat Inspection Act (the Meat Act) and the Poultry Products Inspection Act (the Poultry Act), the Secretary of Agriculture is responsible for ensuring that meat and poultry products are properly marked and labeled.

The Secretary of Agriculture has interpreted this language as requiring U.S. Department of Agriculture (USDA) approval of all marks and labels prior to their use. Neither the language of the Act, nor the legislative history, however, indicates that Congress intended to mandate pre-market label approval. The Acts "would permit 'approval' by the Secretary on the basis of generic regulations setting forth standards for labeling, which, if met, would be acceptable to USDA."

The premarket label approval function is performed by the Standards and Labeling Division of the Food Safety and Inspection Service (FSIS). The label reviewers base approval/disapproval decisions on compliance with the provisions of the Federal Meat Inspection Act, as well as the implementing regulations. Moreover, the reviewers rely on and enforce the nearly 1,000 informal standards published in the Meat and Poultry Labeling Policy Book. Finally, where questions arise, reviewers look to policy memoranda and prior label approval decisions.

2. FDA Food Products Labeling Program

The provisions of the Food, Drug, and Cosmetic Act (the Food Act) regarding misbranding and misleading labels are identical in intent. The Food Act prohibits the introduction into interstate commerce of "any food . . . that is . . . misbranded." Food is deemed misbranded if the "labeling is false or misleading in any particular."

FSIS has noted that applications for prior approval of labels are being received by USDA at the rate of 2,500 per week. While FSIS claims it handles applications received through the mail in three weeks, 60 percent of all label applications are submitted to USDA through an intermediary known as an "expediter." The industry uses this service because it is necessary to get timely action by USDA. It is interesting to note that the discussion in the proposed rule about this group suggests that USDA is more concerned about the potential impact of any change upon these expeditors than it is with reducing costs to the taxpayers or removing an unnecessary burden upon the meat and poultry industries and consumers.

3. Budget and Personnel Trends

The budget and personnel trends of the Standards and Labeling Division of FSIS are shown in Table II-9.

Table II-9
Budget and Personnel Trends

<u>Fiscal Year</u>	<u>Budget Authority (\$)</u>	<u>Staff Years</u>
1978	790,000	33
1979	800,000	33
1980	851,000	31
1981	962,000	35
1982 (est.)	1,160,000	39
1983 (est.)	1,200,000	30

Methodology

The Task Force interviewed FSIS staff in Washington, secured and reviewed published documents, and interviewed persons in the regulated industries.

Findings

As label applications are received, they are assigned to a reviewer in the operations branch. Those deemed to be routine can be approved or disapproved at that stage.

Applications that raise technical questions are referred to either or both of the other two branches for consultation or decision. The standards branch concentrates on the formulation of and the compliance with standards for standardized products, for example, the minimum meat content of a product or the composition of a product whose label designation is to read "sausage" or "frankfurter." The labeling branch sets policies for and monitors compliance with matters relating to label format and detail. For example, the degree to which type size, type style, format, placement, color distinctions, and so on, bear on such determinations as "prominence" and "accuracy" are the concern of the labeling branch.

The difficulties which may be encountered by the food processing industry in obtaining prior label approval are exemplified in the few cases where processors sought administrative adjudication rather than accepting a less desirable product name or description required by compliance personnel. In one case the agency disapproved of the product label "Ham Bologna" for a product made from one hundred percent ham meat. Although the informal Policy Manual permitted use of the name "Ham Bologna" in products made with

50 percent chunk ham, the compliance staff determined that the 100 percent ham product should be called "Pork Bologna." It took 20 months for the processor to obtain label approval through adjudication.

The principal problem with the premarket label approval system is that all labels for new meat and poultry products, as well as all modifications to previously approved labels, no matter how minor, must be submitted to the Standards and Labeling Division in Washington, D.C., for market approval. Thus, each time a processor amends any part of a label (e.g., recipes, coupons, and other nonmandatory information) and each time a minor ingredient (e.g., a spice or flavor) is increased, decreased, added to, or deleted from the product, premarket approval must be obtained from the USDA in Washington, D.C. Processors have frequently complained that this costly system caused inordinate delays in product introduction schedules and problems for those seeking to accommodate customer needs. This places meat processors at a competitive disadvantage to producers of other foodstuffs in the marketplace.

The Senate Committee, GAO, and the Inspector General have criticized the present method. In a formal petition to modify the premarket approval program the American Meat Institute stated:

There is a consensus growing within the food industry and among officials at USDA that the current premarket label approval is too burdensome, costly, and time-consuming. The program has been frequently criticized and there is no evidence that it is more effective in preventing misbranding than the much less burdensome approach used by the Food and Drug Administration (FDA). (Petition dated August 5, 1981.)

Conclusions

The program of prior approval of labels used on meat and poultry and their products is not effective, is not efficient, and is excessively burdensome upon industry. There is no evidence that the USDA labeling program is more effective than the approach adopted by the Food and Drug Administration or the Federal Trade Commission (FTC) to control misbranding or the dissemination of false or misleading information.

In designing labels for products other than meat or poultry, the FDA regulations, together with precedent, permit reasonably ensured compliance. However, even the Standards and Labeling Division must recognize the inadequacy of its regulations, since it publishes a "policy book" to fur-

ther detail the criteria of acceptable labeling practice (but which is contradictory to the regulations in some instances). In addition, it is necessary to continuously "update" this unofficial document through the issuance of policy book changes (two such changes have been issued in 1982) and through the issue of individual policy memoranda, the most recent four of which were issued in the past six months. This situation continues despite the Inspector General's 1979 warning that the "policy book" method of rule making was outside the law and its terms could not be enforced.

Surveillance of the industry's compliance with the Act's labeling requirement would be consistent with the intent of the Meat and Poultry Acts and with the activities of FDA regarding labels on all other food products. Pursuing this function as a "line management" responsibility would place in the hands of inspectors-in-charge, area supervisors, and regional directors the ability to relate plant operations to label claims, thus increasing the effectiveness of USDA regulation of labels.

Recommendations

AG 19-1: Prior approval of meat and poultry labels should be abandoned and replaced with a system similar to FDA's method of ensuring the proper marking and labeling of most other foods under the Food, Drug, and Cosmetic Act. This recommendation would not alter the requirements for standardized products, ingredient listing, and other labeling or composition requirements uniformly applicable to all meat and poultry products under jurisdiction of the USDA.

AG 19-2: Prior to its use, each new label should be filed with the inspector-in-charge of the plant where the product is produced. Inspectors-in-charge should perform the first level of review of a filing for new label use. The relationship between what is in the product and what is on the product label may therefore be evaluated by the most knowledgeable person in FSIS regarding that specific situation. Ingredient names, proportions, and order of preponderance are all issues that are the subject of frequent contact and intimate knowledge of the inspector-in-charge. While the local inspector would not have the power to approve or disapprove a label, his or her comments would accompany the filing to the area office and should be a major factor in determining whether the label would be investigated. In the case of multiplant firms, a duplicate filing should be made with each affected inspector-in-charge.

Unless disapproved by the regional office (with the advice of headquarters staff, if necessary), the label would be deemed approved in 60 days, subject to subsequent disapproval if at any time the label is found to be false or misleading. A current label file should be maintained at headquarters and one staff person should be available at headquarters to advise the regions on acceptance or rejection of a label.

Savings and Impact Analysis

Personnel reduction would amount to 30 staff years. Budget reductions for FY 1983 would be \$1.2 million, or \$3.7 million for three years.

Implementation

Implementation would require initiation of a rule-making proceeding to amend 9 C.F.R. Part 317 and a change in USDA policy as recommended.

AG 20: User Fees in the Agricultural Cooperative Service

Issue and Savings

The Agricultural Cooperative Service (ACS) should assess user fees for publications and for technical assistance services performed for agricultural cooperatives. By charging user fees for publications and for technical assistance services rendered to existing cooperatives, appropriations could be reduced by \$1.5 million in FY 1983, or \$5 million in three years.

Background

The basic enabling legislation for ACS is the Cooperative Marketing Act of July 2, 1926. By 1953, the function of ACS was perceived to be sufficiently different from other USDA functions to justify the establishment of an independent agency, the Farmer Cooperative Service. In 1978, it was incorporated into the Economic Research Service, but in 1980 it was again made a separate agency, thus establishing the ACS.

The basic functions of ACS are to:

- * Carry out basic and applied research on the various aspects of farmer-owned cooperatives;
- * Provide technical assistance to existing cooperatives on a variety of marketing, financial, organizational, and economic problems;

- * Provide assistance and technical support to newly emerging cooperative associations in their efforts to organize and establish sound business operations;
- * Collect and disseminate statistics on changes and trends in cooperative organizations, membership, structure, and operations; and
- * Fulfill the responsibilities assigned by the Cooperative Marketing Act of 1926 "to promote the knowledge of cooperative principles and practices and to cooperate in promoting such knowledge, with educational and marketing agencies, cooperative associations, and others."

The technical assistance which ACS provides to individual agricultural cooperatives includes:

- * Conducting in-depth studies to explore the feasibility of mergers of cooperatives,
- * Conducting in-depth studies to determine the feasibility of acquisition of specified corporate assets,
- * Determining the means by which regional marketing cooperatives might coordinate their price protection activities, and
- * Exploring the chances for success of founding cooperatives in specific purchasing/marketing situations.

In 1981, ACS staff was involved in 95 formal technical assistance projects, 59 for "emerging or developing" cooperatives. 114 groups or cooperatives were served. User fees are not currently assessed for these services.

The recent budget authority of ACS is as follows:

<u>Fiscal Year</u>	<u>Amount (\$)</u>
1979	3,963,000
1980	3,850,000
1981	4,500,000
1982 (Estimated)	4,639,000
1983 (Estimated)	3,683,000

In 1981, ACS employed 46 professional staff in Washington and 5 in five field offices. It maintains and dis-

tributes over 100 research and educational publications concerning cooperatives.

Methodology

Interviews were conducted with the Administrator of ACS, with members of the Budget and Planning Director's staff, and with administrative personnel in the Agricultural Marketing Service (which provides administrative support for ACS).

In addition, interviews with the Assistant Secretary for Marketing and Inspection Services and with his deputy confirmed that the increased use of user fees is hampered by the present lack of uniformity in applying user fees and that the lack of ACS user fees is part of this problem.

Findings

1. Technical Assistance

For FY 1982, technical assistance accounts for \$2.1 million of a \$4.6 million total budget for ACS. All three divisions of ACS (Cooperative Marketing and Purchasing, Cooperative Management, and Cooperative Development) provide a share of this service, with Cooperative Development being the heaviest contributor. Research accounted for \$1.7 million of the ACS budget but probably cannot be easily identified to any individual beneficiary.

2. Publications

The ACS monthly report and the published reports of ACS research currently are distributed free. Starting in FY 1983, a charge will be assessed for ACS publications, but 1,000 copies will be made available to ACS. This appears to be far more than necessary for the U.S. Department of Agriculture (USDA) or Congress and could be used to continue the free distribution of publications to cooperatives.

Conclusions

Agricultural cooperatives in the United States today are generally as financially sound as the noncooperative firms with which they compete. Providing the benefits of ACS publications and technical assistance to this segment of the dairy industry without charge is unjustified.

Technical assistance services could and should be performed by private sector consulting firms. ACS lists 96 recipients of technical service in 1981. Only 10 of the 96 were not identified as cooperatives in their titles. The

assessment of user fees to cooperatives which are the beneficiaries of ACS technical assistance services falls within the guidelines of the Office of Management and Budget (OMB) Circular A-25 and is appropriate.

It is also apparent that the content of most ACS publications is of direct benefit to cooperatives. If the industry is unwilling to pay for these publications in numbers sufficient to support their cost, they should be discontinued.

Recommendations

AG 20-1: The Assistant Secretary of Agriculture for Marketing and Inspection Services should direct the Administrator of ACS to bill existing agricultural cooperatives, or cooperative associations or councils, for technical assistance services identifiable to them. Cost savings goals for realization within FY 1983 should be established for ACS.

AG 20-2: ACS should charge user fees sufficient to recover the full cost of preparing and producing all its publications. The number of copies printed for the use of USDA and Congress should not exceed their likely requirements, and none of these copies should be given to the industry free of charge.

Savings and Impact Analysis

The assessment of user fees to recover the costs of performing the ACS technical assistance function for existing cooperatives is expected to save an estimated \$1.5 million in FY 1983, or over \$5 million in three years. This amount is based on the Task Force's assumption that 70 percent of the ACS technical assistance budget could be appropriately recovered by the assessment of user fees; that is, some expenses will not be related to providing technical assistance to cooperatives and other private sector users. The Task Force believes this to be a conservative assumption, given that less than ten percent of 1981 recipients were not identified as cooperatives.

Implementation

This recommendation would not require any statutory change. Regulations to implement the user fee system would be required.

D. FOREIGN AND DOMESTIC COMMODITY PROGRAMS

Overview

Price Support Programs

Price support to farmers is provided through commodity loans, payments, or other means for food grains (wheat, rice, and rye); feed grains (corn, sorghum, barley, and oats); oil crops (soybeans, peanuts, and flaxseed); wool and mohair; and cotton, milk, tobacco, honey, and crude pine gum. The loan programs are financed by the Commodity Credit Corporation (CCC) and administered by the Agricultural Stabilization and Conservation Service (ASCS).

Price support assistance for wheat, rice, feed grains, cotton, peanuts, and tobacco is usually contingent upon participation by the farmer in applicable annual programs. The assistance to farmers is provided at preannounced levels set by statutory formulas. Methods include loans on crops held in storage by farmers, market purchases in times of excess supply, direct payments to producers, and supplemental payments to wool and mohair producers.

Milk prices are supported mainly by the buying of excess market supplies of dairy products, such as cheese, butter, and dry milk from processors.

Loans on eligible commodities are made to producers through ASCS county offices and approved cooperatives. The loans are "non-recourse"--if market prices rise above the loan level, the producer can pay off the loan, with interest, and sell the crop on the market. If prices fall below the loan level, the producer can turn the commodity over to CCC in full payment of the loan. Price support on tobacco, peanuts, and naval stores is provided through producer associations acting for individual producers.

Target prices under current legislation are based on costs of production, rather than on parity, as in the past. Target prices are in effect for wheat, corn, sorghum, barley, upland cotton, and rice. Whenever national average market prices during a specified period are below the announced target price, payments are made to participating farmers at rates equal to the difference between the target

price and either the average price or the loan level, whichever is higher.

Current farm price support programs mandated by Congress have induced record production and stocks at a time of stagnant domestic and world demand. These price support programs have weakened the U.S. farmer's competitive position, preferentially diminished the viability of the family-owned farm, and committed funds well beyond those projected. The Task Force estimates that FY 1983 price support program costs will be \$10.2 billion, and FY 1984 costs will be \$8.8 billion--some \$6.5 billion more than estimated by USDA and \$11.7 billion more than estimated by CBO.

Commodity Programs

CCC is a wholly owned Government corporation established in 1933. Its purpose is stabilizing, supporting, and protecting farm income and prices; assisting in the maintenance of balanced adequate supplies of agricultural commodities; and facilitating the orderly distribution of those commodities. Its broad charter enables it to adapt its operations to changing conditions in the execution of agricultural policy. CCC also acts as the procurement arm for other USDA agencies that need to purchase food and commodities for Government programs.

CCC's operations are financed under a statutory revolving borrowing authority of \$20 billion from the U.S. Treasury. Repayments of borrowings are made thorough periodical appropriations for realized losses, advances for costs of foreign assistance programs, and special activities.

Among CCC's activities are donations to other agencies (Food and Nutrition Service (FNS), Veterans Administration (VA), Penal Institutions (PI), etc.) and to other countries. Under P.L. 480, a food aid program designed to help less fortunate countries feed their people, USDA buys U.S. farm commodities and sells or gives them to foreign countries. The Secretary of USDA is normally given broad statutory authority to establish the amount and dollar value of the commodities to be donated.

Title I, II, and III food transfers under the P.L. 480 program fall within the cargo preference provisions of the Merchant Marine Act, 1936, 68 Stat. 832, as amended, 75 Stat. 565. This legislation conforms to U.S. maritime policy, which seeks to provide the United States with a modern merchant marine capable of supporting a war effort should the need arise. In support of this objective, the Merchant Marine Act requires that one half of all physical

transportation of Government-funded commodities be on privately-owned U.S. flag commercial vessels. In practice, U.S. Department of Agriculture ministers the cargo preference required by booking U.S. flag vessels and directly paying freight differentials between rates for such vessels and foreign flag carriers.

The Foreign Agricultural Affairs Division of the Foreign Agricultural Service (FAS) is in charge of maintaining the foreign representation of FAS. With the exception of nine agricultural trade offices and three representatives at international organizations, all FAS representatives overseas are attached to U.S. embassies in 54 capitals around the world.

The foreign agricultural attache promotes the sale of U.S. agricultural goods in the country or countries under his/her responsibility. Such promotion involves addressing trade barrier issues, providing the conduit for agricultural aid or credit guarantees, and working with representatives of U.S. agricultural trade organizations or private intermediaries. In addition, the foreign agricultural attache collects and provides substantial amounts of agricultural statistics which are used to analyze the overall competitiveness of U.S. agricultural goods.

As of June 30, 1982, FAS has 124 U.S. nationals stationed overseas and employed 168 foreign nationals in the host countries. The total cost of maintaining this foreign representation was estimated at \$13.4 million for FY 1982.

AG 21: Reduce Anticipated Crop Support Payments

Issue and Savings

Farm price support programs should be restructured to reduce anticipated outlays and more effectively meet program objectives. Some \$4 to \$6 billion in anticipated outlays can be saved annually, and \$13 billion over three years, by eliminating target prices, reducing support levels on major crops, and capping Farmer-Owned Reserve (FOR) quantities at reasonable levels. These and other actions discussed below would effectively redirect the Government's role in the farm economy from one of maintaining farm incomes to one of providing a safety net for producers in the event of substantial, sharp, short-term market declines. Current proposals are stopgap measures. Long-term solutions are needed to keep U.S. agriculture the world leader. This issue's savings are not included in the Task Force totals, since much debate will take place before changes are made. Further, the in-depth analysis needed to fully support spe-

cific legislative changes could not be completed in the brief time available.

Background

Current legislation intends that the course of farm policy and programs be charted by an omnibus farm bill passed every four years, early in each presidential term (e.g., the farm bills of 1977 and 1981). In fact, farm legislation has been altered, sometimes substantially, almost every year. Most recently, the Budget Reconciliation Act of 1982 significantly altered provisions of the Omnibus Bill passed only a year earlier.

The apparent intent of current farm legislation is to maintain minimum producer income at a modestly comfortable level, well above subsistence. A complicated system of price supports and target prices, deficiency payments, FOR, acreage reduction programs (including a new paid diversion), storage facility loans, and advance entitlement payments attempts to maintain this "comfortable income level." Together, these programs are designed to shape market forces and stabilize farm supply and demand at price levels that will meet the objectives of producer income maintenance.

The various programs are administered primarily by the Agricultural Stabilization and Conservation Service (ASCS) and funded through the Commodity Credit Corporation (CCC), with CCC's previously incurred net realized losses required to be funded through the budget process.

Program outlays in any given year are a function of several factors: market supply and demand for the crops involved, legislated levels of support and target prices; farmer decisions on participation in, for example, acreage set-aside programs; and the like. Thus, actual future program costs are difficult to estimate, and a wide range of estimates for FY 1983 and FY 1984 exists: CBO estimates \$2.9 billion for the two-year period, while U.S. Department of Agriculture (USDA) estimates \$5.1 billion.

Methodology

The Task Force examined the legislation underlying the major programs. We conducted extensive interviews were conducted with USDA, GAO, CBO, and other government personnel, and consulted industry analysts, academics, and market analysts from major grain trading concerns. In addition, quantitative analyses of historical outlays under feed grain and wheat programs were conducted. Finally, CBO and USDA projections of FY 1983 and FY 1984 outlays were analyzed.

Based on all these sources, PPSS projected its own scenario for corn (feed grains) and wheat supplies, demand, and carry-out for the 1982-83 and 1983-84 crop years. Expected outlays under the PPSS scenario were calculated by USDA budget personnel using existing USDA outlay estimates for crops other than feed grains and wheat. The components of the PPSS scenario and a comparison with USDA estimates appear in Tables II-10 and II-11.

Finally, a variety of data was developed and analyzed to assess the net impact of current programs vis-a-vis program objectives.

Findings

CBO and USDA projections of price support program outlays appear to be understated. PPSS estimates that total outlays for FY 1983 and FY 1984 will be approximately \$10.2 and \$8.8 billion, respectively, some \$6.5 billion more than USDA estimates and \$11.7 billion more than CBO estimates.

Table II-10
Components of PPSS Scenario Outlays
for FY 1983 and FY 1984

	<u>Components</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>Total</u>
Feed Grains	Outlays (\$ million)			
	Net loan & inventory	2735	2455	5190
	Deficiency payments	746	1059	1805
	Diversion payments	263	263	526
	FOR storage	628	806	1434
	CCC storage	259	318	577
	CCC sales	(53)	(50)	(103)
	Total net outlay	<u>\$4578</u>	<u>\$4851</u>	<u>\$9429</u>
	Assumptions			
	Participation (%)	30	46	
Wheat	Planted acres (mil.)	82.0	80.1	
	Production (bu bil.)	8.3	8.3	
	Total supply (bu bil.)	10.4	11.3	
	Domestic Use (bu bil.)	5.27	5.33	
	Exports (bu bil.)	2.10	2.20	
	Total use (bu bil.)	7.37	7.53	
	Season average price (\$/bu)	2.10-2.25	2.10-2.25	
	Outlays (\$ million)			
	Net loan & inventory	2050	1709	3759
	Deficiency payments	920	1077	1997
	Diversion payments	220	55	275
	FOR storage	277	354	631
	CCC storage	84	95	179
	Disaster payments	5	--	5
	CCC sales	(65)	(55)	(120)
	Total net outlays	<u>\$3491</u>	<u>\$3235</u>	<u>\$6726</u>
	Assumptions			
	Participation (%)	38	58	
	Planted acres (mil.)	98.2	81.4	
	Production (bu bil.)	2.77	2.60	
	Total supply (bu bil.)	0.88	0.89	
	Exports (bu bil.)	1.55	1.60	
	Total use (bu billions)	2.43	2.49	
	Season Average price (\$/bu)	3.50	3.75	

Table II-11
Reconciliation of Differences Between USDA Estimates
and PPSS Scenario for Selected Support Programs
(\$ Millions)

	<u>Feed Grains</u>		<u>Wheat</u>	
	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1983</u>	<u>FY 1984</u>
USDA estimates (August Base)	3943	1231	2713	1769
Increase in net loan activity (both regular and reserve)	+679	+2653	+704	+953
Increase in deficiency payments	+20	+592	+20	+432
Difference in diversion payments	-80	+225	+5	+5
Increase in FOR storage payments	+71	+174	+21	+76
All other	<u>-55</u>	<u>-24</u>	<u>+28</u>	<u>0</u>
PPSS scenario	4578	4851	3491	3235

Despite 30 percent and 38 percent participation in 1982 corn and wheat set-aside programs, that same year saw the production of the largest corn and second-largest wheat crops on record. Analysis indicates that the set-aside program drew only marginal land from production, while other programs provided incentives to increase production on remaining land.

FOR will likely reach 2.5 billion bushels of corn and 1.0 billion bushels of wheat in FY 1983--FY 1984. These figures represent 56 percent of estimated annual domestic corn usage, and over 100 percent of estimated annual wheat usage.

Soybean production and intercrop price relationships have pushed soybean prices closer to loan levels. It appears likely that the current feed grain and wheat programs, to the extent they are a factor in the bearish price outlook for those commodities, will eventually trigger major future outlays for soybean price supports.

U.S. efforts to support crop prices may have provided a price umbrella that has encouraged foreign competitors to increase their crop output and capture a greater share of

world agricultural trade. Over the past two years, planted acreage increased 13 percent in Canada, 11 percent in Australia and 4 percent in Argentina. Over the same time period, the U.S. share of the world agricultural export trade market declined by two percentage points.

The economics of current programs inherently favor large producers. To the extent that the programs have induced production and depressed market prices worldwide, smaller, less efficient farmers find themselves unable to compete despite the programs--a fact evidenced by the finding that farm foreclosures, consolidations, and loan delinquencies have all accelerated in recent years.

Conclusions

The current programs have failed to meet their fundamental objective--stabilization of farm supply and demand at price levels that meet minimum producer income maintenance objectives. Indeed, implementation of these laws has:

- * Induced record production and stocks at a time of stagnant domestic and world demand,
- * Weakened the U.S. farmer's competitive position in world markets,
- * Preferentially diminished the economic viability of the small, family-owned farm, and
- * Committed the Federal government to future crop support outlays well beyond those projected.

In short, the programs are, for the most part, a failure. Although immediate action, such as that proposed by USDA in the FY 1984 budget, can help "to stop the bleeding," more fundamental changes are needed for the long term.

Recommendations

While it is not PPSS's intent to propose policies, it was clear, even in our relatively brief review, that Government commodity support programs should be redirected. To achieve and maintain a healthy farm industry, the objective of the programs should no longer be income maintenance through supply/demand stabilization. Rather, the programs should be designed to provide producers with a "safety net" in cases of substantial, sharp, short-term price declines. As noted earlier, our review could not cover this very complex problem in depth. We are, nevertheless, offering the

following recommendations to form the basis for a further study effort:

AG 21-1: Eliminate target prices and thus the deficiency payment subsidies to producers.

AG 21-2: Reduce price support levels on major crops and dairy products. Appropriate levels would be from 60 percent to 75 percent of the average farmgate price obtained over the past five years. In no case, however, should the support levels exceed annualized variable costs of production.

AG 21-3: Seek ways to reduce the FOR holdings and "cap" future FOR quantities at reasonable levels, i.e., at one-third of annual domestic usage.

Savings

Program outlays will obviously be reduced substantially, although it is impossible to pinpoint the amount of reduction. As a ball-park guess, we suggest that if these changes had been made in FY 1983, program costs for FY 1983 and FY 1984 would have been reduced from PPSS cost estimates by between 50 and 75 percent (i.e., a saving between \$4 and \$6 billion annually). Reductions of similar magnitude could be expected in future years.

Lower prices, as opposed to acreage reduction programs, will quickly put marginal land out of production.

Lower prices will thus curtail production while stimulating demand.

Competing countries will be forced to adjust to market conditions rather than to U.S. support prices.

Ultimately, price equilibrium based upon market conditions will be achieved. Average price levels will be higher than can be expected under the weight of current programs. We will see a healthier farm economy.

Implementation

Once detailed, supportable proposals are developed by USDA, changes along the lines of those indicated would require Congressional approval.

AG 22: Eliminate Donations Made to Other Agencies

Issue and Savings

Commodity Credit Corporation (CCC) donations to other Government agencies should be limited or eliminated. By eliminating discretionary donations and requiring other agencies to use appropriated funds to purchase commodities from CCC, greater accountability will be established and an estimated \$364 million saved annually, or \$1.205 billion over three years.

Background

CCC is wholly owned government corporation established in 1933. Its purpose is stabilizing, supporting, and protecting farm income and prices; assisting in the maintenance of balanced adequate supplies of agricultural commodities; and facilitating the orderly distribution of those commodities. Its broad charter enables it to adapt its operations to changing conditions in the execution of agricultural policy. CCC also acts as the procurement arm for other U.S. Department of Agriculture (USDA) agencies that need to purchase food and commodities for government programs.

CCC's operations are financed under a statutory revolving borrowing authority of \$20 billion from the U.S. Treasury. Repayments of borrowings are made through periodic appropriations for realized losses, advances for costs of foreign assistance programs, and special activities.

Among the activities of CCC are donations to other agencies (FNS, VA, PI, etc.). The Secretary of USDA is normally given broad statutory authority to establish the amount and dollar value of the commodities to be donated.

The realized losses incurred by CCC in carrying out its mandate, including all of the donations, have been as follows: for FY 1980, \$2.3 billion; for FY 1981, \$3.5 billion; and for FY 1982, \$5.6 billion (estimated). The amounts donated by CCC in each of those years were as follows: for FY 1980, \$184.4 million; for FY 1981, \$431.9 million; and for FY 1982, \$732.2 million (estimated).

Methodology

This issue surfaced during a brief analysis of the CCC estimates produced by the Budget Division of ASCS. The findings were confirmed through interviews with various CCC and Agricultural Stabilization and Conservation Service (ASCS) officers. An attempt was made to reconcile the

figures of the different accounting systems used by the two agencies.

Findings

USDA personnel unofficially estimate that donations in FY 1983 will be in excess of \$1 billion, despite official estimates that donations for FY 1983 will remain at a level of \$728 million.

The agencies receiving the donations have had their budgets curtailed during the past two years as a result of reduced appropriations. There appears to be a correlation between the reduced budgets for the recipient agencies and the increase in donations made by CCC.

CCC's realized losses are replenished by appropriations authorized after the losses have been incurred. Accordingly, Congress has no choice but to grant appropriations, and the President has no choice but to sign them into law since the funds have already been spent under the broad authority given to CCC. Donations given to other agencies are included in CCC's realized losses.

Conclusions

There is a growing temptation to use CCC donations as a supplemental source of funds for programs which are being limited by budgetary constraints and pressure to reduce Government costs. CCC donations have the following counterproductive effects:

Accountability for actual program costs is blurred.

The budgetary process is circumvented since CCC has the authority to make donations, and funds for those donations must be appropriated after the fact since they become part of CCC's realized losses.

Management control over how much funds are spent, and where, is partly lost. Management could also take inadequate or incorrect action while assessing the value or problems of various government programs, since the data on which decisions are based is blurred.

Recommendations

AG 22-1: Hold FY 1983 CCC donations to a maximum of \$728 million.

AG 22-2: Starting with FY 1984, eliminate all CCC donations. CCC may continue to procure commodities from the

marketplace and release commodities from its inventories to other Government programs, but only as long as it is reimbursed by the receiving agency for the cost of the commodities being procured or released.

Savings

CCC would realize savings in the amount of the cost of future donations. These expenses could be incurred by other Government agencies to the extent that those amounts are directly appropriated. Realistically, it can be assumed that only some portions of these programs will be requested and/or appropriated when the true cost of those "donations" is made clear. For our savings calculations, we assume that only 50 percent would ultimately be appropriated, yielding a saving of approximately \$364 million starting in FY 1984.

There would be an immediate reduction in CCC's realized losses (at least \$728 million estimated in FY 1983, no estimates are available for following years) by amounts which would have been donated. These savings would be partly offset by increased storage costs.

There would also be the immediate achievement of responsibility and accountability for the real size, efficiency, and costs of the relevant Government programs, including the U.S. farm programs.

Implementation

Because existing legislation grants the Secretary of USDA discretionary authority to grant donations, it is within the realm of the Executive Branch, through the Secretary, to institute a new practice whereby CCC is reimbursed for all commodities procured or released to other agencies.

AG 23: Reduce Anticipated Export Financing Costs

Issue and Savings

The costs of various interest buy-down programs currently being considered by USDA to subsidize U.S. agricultural exports should be reduced. Some \$262 million could be saved over the period FY 1983 through FY 1985 by bringing CCC regulations in line with those of other Government agencies to permit commercial bank access to lower U.S. borrowing rates.

Background

USDA is considering the implementation of an interest buy-down program to reduce the financing costs incurred by

foreign importers of U.S. agricultural goods. The basic concept of the various interest buy-down proposals is to have USDA pay a portion of the interest charged by commercial banks financing the purchases made by foreign importers. By reducing the financing costs, USDA would be reducing the overall commodity costs and the demand for U.S. products would increase.

No specific interest buy-down program has been approved yet, but USDA has two possible variants:

- * The Budget Reconciliation Act just passed by Congress mandates that the Secretary of Agriculture to spend between \$175 and \$195 million in each of the next three fiscal years, for whatever export incentive measures the Department might consider appropriate.
- * H.R. 6541, introduced by Rep. Hagedorn and still being considered by Congress, provides for an interest buy-down of up to 4 percent annually for loans to foreign buyers totaling approximately \$1.0 billion per year. Funds used for this interest buy-down program would come from and be limited to no more than 25 percent of the level of the P.L. 480 title I/III program as provided in the annual appropriations act. Assuming that annual appropriations continue at the present level of \$800 million, the funds available would be limited to approximately \$200 million per year.

Any interest buy-down program would be implemented by the Foreign Agricultural Service (FAS) and would be administered in conjunction with the General Sales Manager and the export guarantees granted through CCC.

Methodology

The Task Force analyzed the various interest buy-down proposals under consideration by Congress and projected costs for the next three fiscal years. Alternatives were hypothesized by PPSS and costed using data obtained from FAS documents, other Government publications, and third parties, most notably commercial bankers and others engaged in agricultural export trade.

Findings

Commercial banks that lend to foreign importers do so at commercial interest rates.

There is a difference between commercial interest rates and Government interest rates, with the latter being lower. The difference changes daily, but it has averaged 2.74 percent over the past three years. U.S. Government borrowings made directly by the U.S. Treasury are done at the lower Government interest rates.

U.S. Government agencies may also borrow directly or guarantee transactions in order to take advantage of these Government rates. The financial markets are very discriminating. When the agencies enter these markets, either directly or through guarantees, they pay a premium over the government interest rate, usually ranging between 0.25 and 0.50 percent. Even when this premium is paid, the difference from the commercial interest rates has averaged between 2.24 and 2.49 percent over the past three years.

Many government agencies already take advantage of the interest rate differential, for example, the Farmers Home Administration at USDA.

CCC acts as an agency of the U.S. Government and as such should be able to take advantage of the difference in interest rates. Current regulations prohibit CCC from using Treasury's borrowing leverage.

The commercial banks lending to foreign importers have not been able to get the lower interest rates because the CCC guarantee and the regulations governing the guarantee are perceived by the financial markets to have deficiencies not found in the guarantees given by other U.S. Government agencies.

Expected interest rate subsidy costs under the 4 percent annual buy-down proposal (H.R. 6541) are estimated by PPSS to be approximately \$104, \$168, and \$196 million in FY 1983, FY 1984 and FY 1985, respectively. Only \$1 billion in annual CCC export loan guarantees could be covered by the current buy-down proposals, although CCC loan guarantees currently may be issued for \$2.8 billion of loans per year.

Conclusions

Although sales are already guaranteed, the current interest buy-down proposals are an inadequate and indirect way of subsidizing agricultural export financing. A more direct way would be to modify CCC regulations to allow commercial banks access to funds at Government interest rates. If regulations requiring the difference in rates to be passed on to the importer are established, the same objective of an interest buy-down program can be achieved at no cost to the U.S. Government or CCC.

Recommendations

Existing export financing guarantee programs should be modified, specifically:

AG 23-1: The Attorney General of the United States should clearly establish that CCC guarantees have the unconditional full faith and credit of the U.S. Government.

AG 23-2: USDA should modify existing regulations, or design new regulations, to clearly establish that

- * The guarantee of CCC is transferable to the ultimate holder of the obligation and this holder has direct access to CCC, or its appointed agent, to make a claim in case of nonpayment by the foreign importer.
- * The guaranteed obligations may be traded in a secondary financial market without the need for CCC to approve or consent to the transfer between any two parties.
- * All interest, instead of partial interest covering the guaranteed principal amount, may be guaranteed by CCC.

Savings and Impact Analysis

The CCC is authorized to grant guarantees of up to \$2.8 billion each fiscal year for loans with a maximum maturity of three years. If we assume that CCC uses its maximum authority each year, that all guarantees are issued for three years, and that all loans are repaid in six equal semiannual installments, the cost of a 4 percent interest buy down program would be as shown in Table II-12.

Table II-12
Cost and Savings of Buy-Down Program

Year	Average Guarantees Outstanding (\$ billions)	Cost of 4% Buy-Down (\$ millions)	Range of Savings (\$ millions)	
			Low	High
FY 1983	2.6	104	58.2	64.7
FY 1984	4.2	168	94.1	104.6
FY 1985	4.9	196	109.8	122.0
Total		\$468	\$262.1	\$291.3

Since we estimate that 2.24 to 2.49 percent of the buy-down may be obtained at no cost, the savings generated by

implementing this recommendation would be between \$262.1 and \$291.3 million over the next three-year period.

In addition to using funds for an interest buy-down program which could be obtained at no cost, there is also a significant opportunity cost of not using the funds for other purposes (in the case of the funds provided by the Budget Reconciliation Act) or not utilizing the funds for purposes originally intended (in the case of P.L. 480).

The major drawback to allowing access to government rates is that the size of the secondary financial market influenced by the U.S. Government would increase by a potential \$2.8 billion per year for the first three years (the present maximum maturity of the loans is 3 years). To the extent that the U.S. Government and its agencies already participate in this secondary market and that the size of which is estimated to be \$206.0 billion in FY 1982, the \$2.8 billion per year potential increase contemplated here is 1.4 percent of the total.

Implementation

A legal opinion must be issued by the Attorney General of the United States and CCC export loan guarantee program regulations must be changed by USDA; both of these steps are discussed above.

Additional Information

It is PPSS's conviction, based on personal and professional experience and on extensive interviews conducted during the analysis of this issue, that public investors constitute a sophisticated market. The recommended changes should be considered as one group in order to take full advantage of the interest rate difference. Any deviation in the quality of the asset influences the decision of a potential investor to buy a particular type of paper, as well as the price (interest rate) at which the investor is willing to buy. Accordingly, if any of the changes are not made, or unsatisfactory substitutes are implemented, the total appetite of the market will decrease and the interest rate demanded will increase.

AG 24: Phase Out Cooperator Funding

Issue and Savings

The Foreign Agricultural Service (FAS) Cooperator Funding Program should be phased out. By gradually reducing funding to recipients who are capable of self-financing,

some \$37 million could be saved in FY 1983, FY 1984, and FY 1985, with annual savings of \$24 million thereafter.

Background

Since the early 1960's, FAS has provided direct funding to a number of market development organizations set up to represent specific commodity interests. The purpose of this funding was to help U.S. agriculture enter and expand foreign markets. By FY 1982, the number of groups receiving such funding had grown to 52. Examples of these recipients, called cooperators, are the American Soybean Association, U.S. Wheat Associates, the International Cotton Institute, U.S. Feed Grains Council, and the U.S. Meat Export Federation. Membership in these groups comes from producers, trade associations, private industry, and others interested in promoting exports of specific commodities. Simply stated, their purpose is to develop and maintain overseas markets for those U.S.-produced commodities.

FAS does not specifically break out a budget factor for its contributions to the operating expenses of these groups, considering it to be part of the Agency's overall budget for market development. In FY 1981, FAS paid a total of \$20.2 million to 40 cooperators from a total market development budget of \$23.8 million. In FY 1982, funding of cooperators is expected to be slightly higher, and another slight increase is anticipated for FY 1983, reaching perhaps \$24 million. FAS funding accounts for approximately 50 percent of total cooperator expenses.

Methodology

Interviews were conducted with FAS personnel. Analyses were made of the FAS budget.

In addition, members of the PPSS USDA Task Force used their personal experience to formulate the judgments made herein.

Findings

FAS funding for some of the cooperators has been substantial. Following are selected examples of total contributions made during the past three full fiscal years:

Cotton (two cooperators)	\$10,223,000
American Soybean Association	8,230,000
U.S. Wheat Associates and Producers	9,912,000
U.S. Feed Grain Council	6,239,000

In addition to providing significant funds, FAS helps each cooperator design a marketing program and strategy and also provides many important support services to these groups in the form of planning, review, coordination, and office space in Agricultural Trade Offices abroad.

During each fiscal year, FAS monitors the use of the federal funds to ensure that they are used as intended. Occasionally, USDA's Office of Inspector General (OIG) conducts audits of some of the cooperators.

U.S. agricultural exports have increased substantially over the course of the cooperator program. However, a direct cause-and-effect relationship between FAS funding, the activities of the cooperators, and the increased exports has not been established.

A consensus among industry experts interviewed, as well as some FAS personnel, is that the cooperators could readily replace FAS-provided funds with contributions from the direct beneficiaries of their activities; namely, their members who are producers, exporters, and others in the private sector.

Conclusions

Using Federal funds as "seed money" to assist market development groups in starting their efforts, including developing other revenue sources, may well be a useful policy. As these organizations have matured, however, it seems inappropriate for the funding to continue open-ended. If cooperator groups are useful market development tools, their projects should more properly be funded by the private sector. Industry organizations should be able to prove their usefulness over a period of eight to ten years. If their members are not willing to finance them, it is not the Government's responsibility to intervene.

Recommendations

AG 24-1: Phase out FAS funding of cooperator operating expenses over a four-year period starting in FY 1983.

Savings and Impact Analysis

Assuming a sustained annual funding rate of \$24 million and a four-year phase-out period, annual savings will reach \$24.5 million by FY 1986, as shown in Table II-13.

Table II-13
Savings During Four-Year Phase-Out Period (\$ million)

	(Year 1) FY 1983	(Year2) FY 1984	(Year 3) FY 1985	(Year 4) FY 1986
* Reduction in cooperator funds	6.0	12.0	18.0	24.0
* Associated Administrative Cost Savings	<u>0.1</u>	<u>0.2</u>	<u>0.4</u>	<u>0.5</u>
Total	\$6.1	\$12.2	\$18.4	\$24.5

Responsibility for market development and funding of specific commodities will reside with the private sector.

Cooperators may still avail themselves of FAS support in planning, coordination, and country assistance.

Implementation

This proposal can be acted upon by the Department.

AG 25: Eliminate P.L. 480 Cargo Preference Compliance

Issue and Savings

Cargo preference compliance should be discontinued for P.L. 480 shipments. Exempting P.L. 480 shipments from these requirements would save \$108 million annually, and \$357 million over three years. Moreover, diverting these funds toward increased commodity purchases under P.L. 480 would better meet the program's objectives.

Background

P.L. 480 is a food aid program designed to help less fortunate countries feed their people, under which USDA buys U.S. farm commodities and sells or gives them to foreign countries. Title I, II, and III food transfers under the P.L. 480 program fall within the cargo preference provisions of the Merchant Marine Act, 1936, 68 Stat. 832, as amended, 75 Stat. 565. This legislation conforms to U.S. maritime policy, which seeks to provide the United States with a modern merchant marine capable of supporting a war effort should the need arise. In support of this objective, the Merchant Marine Act requires that half of all physical transportation of Government-funded commodities be on privately-owned U.S. flag commercial vessels. In practice, U.S. Department of Agriculture (USDA) administers the cargo preference required by booking U.S. flag vessels and

directly paying freight differentials between rates for such vessels and foreign flag carriers.

Methodology

Discussions were held with employees of USDA, the Agency for International Development (AID), and private companies. Research included focus on P.L. 480, the Merchant Marine Act, and studies by GAO.

Findings

Substantial average freight-rate differentials exist between U.S. and foreign flag carriers. Differentials ranged from \$29.29 per metric ton in 1970 to \$57.14 per metric ton in 1981 and have increased further in 1982.

USDA has complied with cargo preference provisions on P.L. 480 shipments. Tonnage shipped on U.S. flag vessels varied year by year. For example, Title I and III shipments on U.S. flag vessels ranged from 2.1 million metric tons in 1979, to 1.3 million metric tons in 1980, to 1.5 million metric tons in 1981.

As a result, USDA expenditures for cargo preference compliance have been considerable. The bill for Title I and III cargo preference freight differentials was \$62.7, \$43.1, and \$88.0 million in 1979, 1980, and 1981, respectively. Over the first seven months of 1982, some \$89 million has been expended. Total payments for the full year surely will exceed \$100 million.

Despite these USDA payments, there has apparently been little contribution toward achieving maritime policy objectives. The U.S. flag dry bulk carrier fleet that is used for Title I/III shipments totals only 20 vessels, and these average 20 years in age.

Administratively, cargo preference is viewed as a burden because compliance is monitored through an interagency reporting system which includes USDA's Ocean Transportation Division (OTD), State (AID), and Transportation (Marine Administration).

Conclusions

Cargo preference is an expensive subsidy for three principal reasons. First, it causes a great deal of money to be paid for freight differentials between U.S. and foreign flag carriers without achieving the desired effect of producing a modern U.S. fleet capable of carrying one-half of U.S. world trade. Second, in the case of P.L. 480, the interagency

monitoring of compliance is a cumbersome process. Finally, it diverts funds from the principal objective of P.L. 480, namely, transferring foods to needy foreign nations.

Recommendations

AG 25: USDA should seek legislation to exempt all P.L. 480 shipments from cargo preference compliance requirements.

Savings and Impact Analysis

Freight differential payment savings of about \$108 million per year would be realized. In addition, the need for FAS's Ocean Transportation Division (OTD) would be eliminated (see also USDA Issue AG 28).

Implementation

Statutory change by Congress is required. USDA and the Administration should move immediately to initiate the necessary amendments to P.L. 480 and the Merchant Marine Act.

Additional Information

In the past, there has been some interest in exempting P.L. 480 shipments from cargo preference requirements. Most recently, the Senate Committee on Agriculture voted to remove the cargo preference requirement from the P.L. 480 program, but this language was struck in a subsequent floor debate. It was defeated again in October 1982, when connected with the Foreign Aid Bill.

Given the further decline of the farm economy during the past year, with strong Administration endorsement, Congress may be prevailed upon to approve this recommendation.

AG 26: Reduce P.L. 480 Freight Differential Payments

Issue and Savings

The payment of the Titles I and III ocean freight differentials should be administered more efficiently. There are potential cost reduction savings of \$12 million per year, \$40 million over three years, if recipients are given incentive to negotiate lower rates on American carriers. In addition, Foreign Agricultural Service (FAS) administrative costs could be reduced by about \$140,000 per year.

Background

P.L. 480 is subject to the Cargo Preference Act, which means that 50 percent of the cargo shipped must be transported on U.S. flag vessels. Under Titles I and III, the cost of ocean freight is borne by the recipient country. However, Congress has authorized the U.S. government to pay the ocean freight differential which is the cost of American carriers over that of the foreign carriers used in compliance with cargo preference regulations.

Methodology

Personal interviews were conducted with U.S. Department of Agriculture (USDA), former USDA, Agency for International Development (AID), and private company employees. Analysis was done of P.L. 480 and Shipping Act legislation.

Findings

Foreign countries conduct freight tenders for P.L. 480 shipments and negotiate directly with vessel owners. USDA is a third party in these transactions and is not involved in rate negotiations.

By directly paying whatever freight differential exists between U.S. and foreign flag carriers, USDA procedures provide no incentive for the food-aid recipient country to negotiate the lowest possible rates.

Other U.S. government agencies--for example, AID--use freight differential payment procedures that do provide significant incentives to the foreign country to negotiate the lowest possible transportation costs.

Freight differential savings under the procedures used by other agencies were found to range between 8 and 24 percent. Numerous interviews confirmed the availability and effectiveness of the freight contracting strategies employed when real incentives to minimize costs were in place.

The Vessel Approach Branch of Ocean Transportation Division (OTD) has as its principal function the administration of the current freight differential payment procedures. The budget for this function is about \$140,000 annually.

Conclusions

USDA can change the procedure for funding the freight differential to provide incentive for the recipient country to negotiate for the lowest rate from all carriers, including American. Such a change will improve program operations

by allowing more commodities to be shipped at no extra cost. In addition, administrative steps and costs can be reduced because USDA would no longer be involved in an approval process.

Recommendations

AG 26-1: USDA should adopt a P.L. 480 freight differential payment procedure similar to the one used by AID. Specifically, funds for a portion of the estimated differential should be allocated directly to the recipient country and a requirement imposed on the recipient country to comply with cargo preference provisions.

AG 26-2: The Vessel Approval Branch of OTD should be disbanded, and its function of monitoring cargo preference compliance transferred to AID.

Savings and Impact Analysis

In FY 1982, the freight differential costs for Titles I and III were in excess of \$100 million. Based on savings found in other agencies of between 8 and 24 percent, a 12 percent saving, or \$12 million per year, by USDA should be achievable.

Implementation

The recommendations made above can be implemented immediately by administrative action.

Additional Information

This recommendation should be implemented to capture interim cost savings for AG 25.

AG 27: Transfer Freight Forwarding Activities To Private Sector

Issue and Savings

U.S. Department of Agriculture (USDA) should not be involved in P.L. 480 freight forwarding activities. An estimated \$2.5 million annually, \$8 million over three years, can be saved by completely eliminating USDA's freight forwarding activities, transferring them to sponsoring agencies and to the private sector.

Background

The foreign freight forwarding activities of the USDA consist of one-half of World Food Program (WFP) donations

plus all International Emergency Food Reserve and government-to-government donations made under Title II of P.L. 480. This accounts for approximately 38 percent of Title II tonnage, based on FY 1982 estimates. Within USDA, OTD books cargo space on vessels, while the Kansas City Commodity Office and Houston and Portland Branch Offices perform the other freight forwarding functions. The 62 percent balance of Title II tonnage is handled by independent ocean freight forwarders (IOFF) on behalf of American private voluntary agencies, such as CARE and Catholic Relief Services, plus one-half of WFP shipments.

There has been considerable debate since 1963 as to whether USDA should perform freight forwarding functions for Title II shipments. Various government and external consultant studies have addressed the issue and reached divergent conclusions.

Methodology

Personal interviews were conducted with various employees of Agricultural Stabilization and Conservation Service (ASCS), Kansas City Commodity Office, Foreign Agricultural Service (FAS), Ocean Transportation Division (OTD), Office of General Counsel, Agency for International Development (AID), General Accounting Office (GAO), two voluntary agencies (CARE and Catholic Relief Service), two IOFFs (Daniel F. Young, Inc., Wm. H. Muller Shipping Corp.), private companies, and former USDA personnel. Additional interviews with Kansas City employees were conducted by telephone. Research and analysis focused on P.L. 480 and other related legislation, government audits and reports, and independent study by Booze, Allen and Hamilton, department correspondence, files of D. F. Young, and memos from Western Great Lakes Maritime Association.

Findings

Several IOFFs provide services free of charge to volunteer agencies and WFP. They are, however, compensated by steamship companies on a percentage-of-freight-paid basis.

USDA uses no intermediaries on 43 percent of vessel bookings. Commissions are paid by steamship companies to intermediaries such as brokers (48% of USDA shipments) and general agents (9%). Thus, to the extent that the steamship company has lower costs by virtue of not having to pay commissions, USDA may have opportunities to capture a portion of the steamship company's savings (typically 1 to 3% of the freight rate) on 43 percent of its shipments.

Evidence (presented in the Appendix) suggests that USDA is ineffective in capturing such savings. On the contrary, one comparative analysis by a freight forwarder of USDA versus voluntary agency and IOFF negotiating performance indicates that USDA has incurred excess freight costs of over \$2 million per year.

Conclusions

USDA freight forwarding is duplicating services provided at no cost by the private sector.

Moreover, the private freight forwarder is in a position to provide better performance in terms of lower rates, accurate information, and coordinated and timely shipments and to contribute net savings to the P.L. 480 program.

Recommendations

AG 27-1: Assign all freight forwarding responsibilities to the agencies sponsoring the Title I programs.

AG 27-2: Disband the Cargo Operations Branch of OTD and close the Houston and Portland Branch Offices.

Savings and Impact Analysis

Because all of the agencies employ IOFFs, the net effect of this will be to transfer these activities to the private sector. Following this recommendation means that WFP will gain all forwarding responsibilities for its own program plus all of the International Emergency Food Reserve and part of government-to-government shipments that are currently administered through WFP. Most of the balance of government-to-government shipments are distributed through voluntary agencies and thus will be forwarded by their IOFFs. Only government-to-government shipments made to countries where there are no WFP or voluntary agency programs remain to be contracted and, in such cases, Kansas City can assign the job to an approved IOFF, as they did in the late 1950s.

Annual savings are estimated at \$2.5 million, of which \$2 million will be in the form of lower freight costs through more effective IOFF chartering. The balance is administrative savings resulting from the disbanding of the Cargo Operations Branch of OTD.

Implementation

This entire recommendation can be implemented by the administrative action of the Department. Within USDA, it af-

fects the Agricultural Stabilization and Conservation Service and the Foreign Agricultural Service, both of which report to Under Secretary Lodwick. Transferring of freight forwarding responsibilities can be done easily at the beginning of the program year, which for all but WFP is October 1, 1982. WFP program renewal occurs on January 1, 1983. The transfer is a matter of informing program agencies of the policy change, then simply processing the additional shipments just as other voluntary agency and WFP shipments have always been done.

Additional Information

See the other issues affecting the Ocean Transportation Division of Foreign Agricultural Service (FAS), specifically AG 25, AG 26 and AG 28.

AG 28: Disband FAS's Ocean Transportation Division

Issue and Summary

The U.S. Department of Agriculture (USDA) should disband the Ocean Transportation Division (OTD). Savings of \$575,000 per year could be realized, or \$1.9 million over three years.

Background

OTD is part of the Foreign Agricultural Service (FAS). Its purpose is to assist the transportation and administration of concessionary commodity export sales. The Director of OTC is in charge of the following three areas. The Vessel Approach Branch approves American Flag vessels for P.L. 480 Titles I and III compliance with the Cargo Preference Act, and it also pays the freight differential. The Cargo Operations Branch arranges liner and charter bookings for P.L. 480 Title II. The Rate Analysis and Statistical Area maintains a tariff library and reviews ocean freight rates as a support function for vessel approval and cargo operations. In addition to the Director, there are fifteen other positions staffed with eleven professional, one support, and three secretarial employees.

Methodology

Interviews were conducted with employees of the USDA Ocean Transportation Division and the Agency for International Development (AID) Transportation Support Division. A number of other discussions were held as described in the methodology sections of related PPSS AG recommendations.

Findings

The position of Director of OTD has been vacant for several months.

The Cargo Operations Branch of OTD has as its primary mission the booking of vessel space for P.L. 480 shipments and the performance of freight forwarding activities. As discussed in Issue AG 27, this group should be disbanded.

Similarly, the Vessel Approval Branch's role in approving and making freight differential payments under Cargo Preference Provisions of P.L. 480 and the Merchant Marine Act should be eliminated. This issue is discussed in Issue AG 26.

The Rate Analysis and Statistical Area is a support group for Vessel Approval and Cargo Operations. Although the Kansas City Commodity Office will always need tariff information to calculate the lowest landed cost basis for P.L. 480 shipments, it has other access to this information and, even at this time, does not rely on rate analysis and statistics when making those calculations.

Conclusions

The Ocean Transportation Division exists as a support area for P.L. 480 programs. The administration of these programs could be reorganized without losing, and in many cases increasing, the efficiency of the program, while also eliminating some administrative expense.

Recommendations

AG 28: Disband OTD, eliminating and redistributing services currently performed as discussed in AG 26 and AG 27.

Savings and Impact Analysis

Savings of \$575,000 per year will be realized. Moreover, as discussed in Issues AG 26 and AG 27, substantial other benefits--specifically \$12 million in lower freight differential costs and \$2 million in lower freight rates--will be realized.

Implementation

The recommended reorganization can be implemented immediately by administrative action. However, implementation is contingent on concurrent implementation of AG 26 and AG 27, which concern freight differential payment procedures and

the role of the Vessel Approval Branch, as well as freight forwarding activities and Cargo Operations Branch.

AG 29: Eliminate ERS/FAS Duplication of Effort

Issue and Savings

Cost savings opportunities exist through elimination of duplication among the Economic Research Service (ERS), the Foreign Agricultural Service (FAS), and the World Agricultural Outlook Board (WAOB). An estimated \$6.7 million per year could be saved, \$22 million over three years, through a reorganization and consolidation of economic research/analysis efforts.

Background

ERS is a U.S. Department of Agriculture (USDA) staff agency for agricultural economic research, analysis, and information dissemination. FAS is both a staff and program agency in that it maintains a foreign agricultural intelligence, analysis, and reporting service and in that it is responsible for foreign market development and expansion activities for U.S. farm products.

A third agency, WAOB, was established in 1977 for the purpose of ensuring consistency, reliability, and timeliness of assumptions and estimates of world commodity supply and demand.

Total resources available to the above three agencies is approximately \$132 million and covers 1,657 employees, as shown in Table II-14. This level includes economic research and analysis costs, program spending, and administration/overhead costs. A functional breakdown of costs:

- * Economic research and analysis
 - ERS = \$34.5 million
 - FAS = \$17.6 million
 - Total = \$52.1 million
- * FAS market development programs and foreign agricultural attaches = \$61.2 million
- * Agency administration and overhead staff
 - ERA = \$9.8 million
 - FAS = \$7.0 million
 - Total = \$16.6 million
- * World Agricultural Outlook Board = \$1.6 million
- * Total for the three agencies = \$131.7 million

Table II-14
Budget and Staffing of ERS, FAS, and WAOB

<u>Category</u>	<u>FY1981A</u>	<u>FY1982E</u>	<u>FY1983B</u>
Budget (\$ thousands)			
ERS			
Personnel Costs	--	26,820	26,820
Other	--	15,040	17,464
Total	--	41,860	44,284
FAS			
Personnel Costs	21,267	25,909	26,168
Other	39,909	48,250	59,667
Total	61,176	74,159	85,835
WAOB			
Personnel	821	986	1,025
Other	926	497	571
Total - 3 agencies	62,923	117,502	131,715
Full-Time Equivalent Employment			
ERS	--	904	912
FAS	756	748	718
WAOB	25	27	27
Total - 3 agencies	781	1,679	1,657

Methodology

Extensive interviews were conducted with both agency officials and outside sources to determine background and perspective. Interviews also led to pinpointing areas of duplication. Agencies were analyzed in terms of organizational structure, responsibilities, budgets, and output. Areas of overlap and duplication were isolated and quantified. Alternative methods for elimination of duplication were investigated. Judgment as to the best alternative was made, and that alternative was developed into a recommendation.

Findings

Duplication of effort exists between ERS, FAS, and the WAOB. This duplication appears in agency mission statements, organizational structure and processes, and output (published reports). Some examples follow:

- * Agency mission statements include areas of responsibility which appear to be duplicative and/or overlapping:

- ERS International Economic Division--"international agricultural economic intelligence, analysis and research . . . which provides current developments and forecasts of world, regional, and country supply and demand for food and agricultural products."
 - FAS Commodity Divisions--"collect data on supply and demand for assigned commodities; . . . analyze data to determine causes and trends affecting supply and demand on a commodity country area, foreign, and world basis."
 - "Issue releases to the public containing economic analysis of supply and demand, focusing mainly on current situation and short-term outlook."
- * A sampling of selected publications indicates similarities in portions of the content of both agencies' publications:
- ERS "Outlook and Situation--Tobacco" and FAS "World Tobacco Situation"
 - ERS "Outlook and Situation--Wheat/Feed" and FAS "World Grain Situation/Outlook"
 - ERS "Outlook and Situation--Fats/Oils" and FAS "World Oilseed Situation"
 - ERS "Outlook and Situation--Sugar/Sweeteners" and FAS "World Sugar/Molasses Situation"

The duplication of mission, effort, structure, processes and output is well recognized throughout USDA. However, the extent of the duplication, and particularly the savings to be realized if it were eliminated, is a matter of considerable dispute among the three agencies.

Conclusions

The current duplication among ERS, FAS, and WAOB can best be eliminated, and \$6.7 million saved annually beginning in FY 1983, by combining the agricultural economic research, analysis, and forecasting functions of the three agencies into a new Central Agricultural Economic Agency (CEA).

Recommendations

AG 29-1: Create a CEA with a pro forma initial budget of approximately \$63.6 million and consisting of the following elements:

	<u>\$ millions</u>
Economic Research Service (ERS)	45.6
International Agricultural Statistics (FAS)	8.0
Analytical portions of Commodity Division (FAS)	3.0
LANDSAT (FAS)	7.0
Total	<u>\$63.6</u>

AG 29-2: Eliminate duplicative efforts within the new CEA and within the unaffected parts of FAS and WAOB. Specifically, eliminate duplication among the following:

- * The coordination/review function of the WAOB
- * The Situation and Outlook effort of the International Agriculture Statistics Division of FAS
- * The analysis portion of the Commodity Divisions of FAS
- * The Foreign Production Estimates group of the International Agriculture Statistics Division of FAS
- * The Trade and Economic Information Branch, of the International Agriculture Statistics Division of FAS
- * The Trade Policy Branch of the International Economic Division of ERS
- * The International Trade Policy Division of FAS
- * Data Services (ERS); Data Systems Group; International Agriculture Statistics (FAS); Reports/Projects Group, of the International Agricultural Statistics Division (FAS)
- * The Information Offices of ERS and
- * Administrative Services (ERS and FAS); Personnel (ERS and FAS); and Budget/Finance (ERS and FAS).

Savings

PPSS estimates \$6.7 million annual savings by aggressive elimination of duplicative efforts within the new CEA and the residual elements of FAS and WAOB. Targeted savings by area are:

<u>Duplication Eliminated</u>	<u>FY 1983 Savings (\$ million)</u>
WAOB	\$0.8
Short-term foreign analysis	3.0
Trade policy analysis	0.9
EDP	1.0
Information office	0.5
Overhead support	0.5
Total	<u>\$6.7</u>

In addition, the new CEA should ensure greater consistency and effectiveness in the functions affected. Finally, FAS would be left as a focused, program-oriented agency with an anticipated beneficial effect on its program missions.

Implementation

A directive from the Secretary of USDA, outlining the new organization structures, responsibilities, and processes would be required for implementation.

Establishment of a management control and organizational incentive mechanism, to ensure appropriate staff support to program agencies, would also be required.

AG 30: Reduce and Reorganize Representation in Europe

Issue and Savings

Foreign Agricultural Service (FAS) should reduce or reorganize its representation in Europe. Some \$1.2 million can be saved annually, \$4 million over three years, and effectiveness increased, by consolidating offices and reducing total representation to levels more consistent with the agency's mission.

Background

The Foreign Agricultural Affairs Division of FAS is in charge of maintaining the foreign representation of FAS. With the exception of nine agricultural trade offices and three representatives at international organizations, all of FAS's representatives overseas are attached to U.S. embassies in 54 capitals around the world.

The role of the foreign agricultural attache is to promote the sale of agricultural goods in the country or countries under his or her responsibility. Such promotion is done by addressing trade barrier issues, providing the conduit for giving agricultural aid or credit guarantees, and working with representatives of U.S. agricultural trade organizations or private intermediaries. In addition, the foreign agricultural attache collects and provides substantial amounts of agricultural statistics that are used to analyze the overall competitiveness of U.S. agricultural goods.

As of June 30, 1982, FAS had 124 U.S. nationals stationed overseas and employed 168 local nationals in the host countries. The total cost of maintaining this foreign representation was estimated at \$13.4 million for FY 1982.

Methodology

Statistical information on administrative costs was provided by the Budget and Analysis Division of FAS. Information on the organization of the attache service, market history, and trends was obtained through interviews with current and former attaches as well as with personnel in the Foreign Agricultural Affairs and Commodities divisions of FAS.

Findings

Some 38 percent of FAS's overseas personnel, and nearly 40 percent of its overseas budget of \$13.4 million, support operations in Europe. The European personnel are maintained in eighteen offices in sixteen locations.

Between FY 1977 and FY 1980, agricultural exports to Europe have declined as a percentage of total U.S. agricultural exports--from 35.7 percent in FY 1977 to 29.3 percent in FY 1980. The decline is attributable to significantly faster market and export growth in other areas.

All Commodity Divisions in FAS believe that the greatest potential for marginal increases in exports of agricultural goods are in Asia and Oceania, the Middle East, North Africa, and the Western Hemisphere. All Commodity Divisions have likewise confirmed that there is very limited room for marginal increases in exports in the European Community. Some of the Commodity Divisions expressed a belief that there is a greater market potential in Eastern Europe, but the possibility of taking advantage of those markets is more a function of political and diplomatic events than promotion efforts.

The bulk of the work done by FAS personnel in the European Community is related to trade policy issues handled at government-to-government and government-to-community levels. Due to the Common Agricultural Policy (CAP), most trade issues are resolved by the European Community in its headquarters in Brussels.

An attempt has been made by FAS to recognize the changing market trends by gradually shifting positions away from the European Community. This shift has consisted of two to three positions per year.

Conclusions

FAS is not deploying its European resources in the most efficient manner possible.

Given the nature of the work done by FAS personnel in the European Community and in Eastern Europe, the best distribution of personnel would be one that centralizes the work in one location for each of the two geographic areas. The only exceptions to this organization would be the Trade Offices in Hamburg and London and the attache personnel assigned in Moscow. Since the nerve center for the European Community is in Brussels, that city is the most logical one in which to centralize FAS operations. Since information and communications concerning Eastern European countries are better outside the area, Frankfurt or Vienna are the most logical cities in which to centralize FAS operations for Eastern Europe.

In order for centralization to work, it would also be necessary to increase the number of personnel at both locations and to increase the travel budget so that personnel may cover both geographical areas adequately.

Recommendations

AG 30-1: FAS should close all attache offices in Belgium, Denmark, France, West Germany, Greece, Ireland, Italy, the Netherlands, and the United Kingdom.

AG 30-2: FAS should establish one office in Brussels to deal with the European Community as well as with each member state. This office should be staffed with approximately 14 U.S. nationals and with approximately 16 local nationals. Given the degree of trade issues that need to be handled, the International Trade Policy Division of FAS should have direct representation in this office.

AG 30-3: FAS should close all attache offices in East Germany, Poland, Romania and Yugoslavia, as well as the

Trade Office in Warsaw. The attache office in Moscow should remain open as staffed.

AG 30-4: FAS should establish a new office in either Frankfurt or Vienna to deal with all Eastern European countries. This office should be staffed with approximately six U.S. nationals and five local nationals.

AG 30-5: Both the new Brussels office and the new Eastern European Office should be given a large travel budget in order for their personnel to frequently visit the countries under their responsibility.

Savings and Impact Analysis

The number of offices can be reduced from 18 in 16 locations to 5 in 5 locations. The staff of U.S. nationals can be reduced from 44 to 20, while the staff of foreign nationals can be reduced from 46 to 21. This will produce net annual savings of \$1.2 million after accounting for necessary increases in travel budget.

Implementation

All of the actions recommended may be taken by FAS with the approval of the Department of State.

AG 31: Reduce U.S. Nationals Secretarial Pool

Issue and Savings

Foreign Agricultural Service (FAS) should reduce the large and costly pool of U.S. nationals for secretarial service in foreign countries. Some \$439,000 could be saved annually, \$1.6 million over three years, by limiting the use of U.S. nationals to situations where clear and compelling justification exists.

Background

FAS maintains a 22-person secretarial pool of U.S. nationals. These secretaries are assigned in various locations where foreign agricultural attaches are located, and they are rotated periodically.

The basic salary of the 22-person work force during FY 1981-1982 is \$398,000. Due to the cost of normal employee benefits and the cost of maintaining personnel abroad (moving expenses, housing allowance, utilities, home leave, etc.), it is estimated that an additional 80 percent cost over the base salary is borne by FAS to have this sec-

retarial pool. The total cost increases to approximately \$716,000.

Methodology

Statistical data on the secretarial pool were obtained from the Foreign Agricultural Affairs and Management Divisions of FAS. Information as to the actual work done by this clerical staff was obtained from conversations with FAS personnel in Washington, D.C., who have previously served in foreign locations.

Findings

The rationale for maintaining U.S. nationals as secretaries is that they deal with internally classified information. However, most of the information compiled by the foreign attaches is released to the public and is shared with friendly foreign governments.

There are 73 FAS units overseas (attaches and Agricultural Trade Offices), and 52 are currently employing local secretaries to handle similar information. All 21 units that currently have U.S. national secretaries, except 5, have local professionals who assist in obtaining and handling the information being reported. All 21 units that currently have U.S. national secretaries, except 4, also hire local secretaries. Since the U.S. national normally does not speak the language of the country, the local national is necessary to carry out many secretarial functions such as answering the phone, foreign language correspondence, and so on.

To the extent that the Agricultural Attache is producing secret information, he or she should rely on other U.S. national secretaries working in other areas of the U.S. Embassy.

Conclusions

There is no need to maintain a staff of 22 secretaries to be rotated overseas. Except in the Communist countries where FAS has representation, the Agricultural Attache produces very little information, if any, that is classified for national security reasons.

Given the high costs of maintaining personnel overseas, it is essential to evaluate their need vis-a-vis the possibility of hiring the same personnel locally at a lower cost. This need is not evident in the case of the secretarial pool.

Recommendations

AG 31-1: Limit the employment of U.S. national secretaries to units located in Communist countries: Beijing, Belgrade, Berlin, Bucharest, Moscow, and Warsaw. Secretaries located in all other posts should be repatriated immediately.

AG 31-2: Do not replace any of the other U.S. national secretaries and use the existing local secretaries.

AG 31-3: Replace the U.S. national secretary with a local secretary in the units that would be left without any clerical help: Cairo, Nairobi, Vienna.

Savings and Impact Analysis

Estimated savings per year:

Limit U.S. national secretaries to Communist countries (6 vs. 22 currently)	\$514,000
Replace with local secretaries in only three locations	<u>-75,000</u>
Net savings per year	\$439,000

These savings are in addition to those in AG 30. One-time relocation costs are not considered an offset inasmuch as these costs would have been incurred at normal rotation time in any event.

Implementation

The secretarial reorganization of the foreign agricultural offices may be done through a directive issued by the Director of the Foreign Agricultural Affairs Division of FAS.

AG 32: Reorganize Foreign Agricultural Affairs Division

Issue and Savings

The Agricultural Attache Service should be reorganized to make it more responsive to the objectives of FAS. Although no direct savings can be calculated, indirect savings will result from a more efficient, smoother running organization.

Background

The Foreign Agricultural Affairs Division (FAAD) of FAS is in charge of maintaining the foreign representation of FAS. With the exception of nine Agricultural Trade Offices and three representatives at international organizations, all of FAS's representatives are attached to U.S. Embassies in 54 countries around the world.

The foreign agricultural attache is to promote the sale of agricultural goods in the country or countries under his or her responsibility. Such promotion is done by addressing trade barrier issues, providing the conduit for giving agricultural aid or credit guarantees, and working with representatives of U.S. agricultural trade organizations or private intermediaries. In addition, the foreign agricultural attache collects and provides substantial amounts of agricultural statistics which are used to analyze the overall competitiveness of U.S. agricultural goods.

As of June 30, 1982, FAAD had 124 U.S. nationals stationed overseas and employed 168 local nationals in the host countries. The total cost of maintaining this foreign representation was estimated at \$13.4 million for FY 1982.

Methodology

Information on the organization of the attache service was obtained through interviews with current and former attaches as well as with personnel in FAAD.

Findings

The foreign attaches prepare an annual strategic plan for the geographic area under their responsibility. This plan is done with the cooperation of Foreign Agricultural Service (FAS) divisions in Washington, D.C.

The approved strategic plan is technically the action plan for a calendar year against which the attache's performance will be measured.

The division head of FAAD is technically the supervisor of all the attaches. In practice, the division head's role is a passive one and is primarily limited to personnel issues.

Each attache receives instructions and orders from a variety of areas of FAS. The attache normally is called upon to furnish to the different areas of FAS lengthy and detailed reports on various matters. For example, every attache is responsible for submitting 24 management reports.

Since some of these reports have multiple due dates, the actual number of management reports submitted totals 33.

The attache also has outside pressures from trade representatives, host government officials, and traveling U.S. citizens interested in discussing agricultural matters. They are also called upon to act as tour directors for visiting USDA officials and other U.S. Government visitors, such as Congressmen.

The annual evaluation of the attaches is a cumbersome process that takes into consideration input from all FAS areas that have had reason to deal with the attache. Except for the contribution made by FAAD to this review process, FAAD is obliged to take a weighted average of all reviews submitted by all other areas. FAAD has no discretionary ability to make a change in the final outcome of the review.

The review process is such that, from a practical point of view, an attache has at least five to eight "bosses" to whom he or she has to report.

Since each area of FAS makes its day-to-day demands on the attache's time based on its own interests, there is no joint effort to guide the work of each individual attache.

The organization of FAS leads to bad morale, little motivation to perform, and no accountability on the part of the attache.

Conclusions

There is no organized effort to manage the work and monitor the productivity of the attaches. This has the effect of leaving a disjointed approach to each country.

The efforts of the attache are often measured by the timeliness and depth of his or her reports. This emphasis goes against basic theories of sales and promotion. Salespersons cannot be successful if they are expected to be immersed in paperwork and reports.

The evaluation process used by FAS is demoralizing and it encourages mediocrity instead of excellence. A good attache who works diligently is appraised by an impersonal committee which places an inordinate weight on the reporting capabilities. There is no reward mechanism for recognizing successful sales and promotional efforts of attaches.

Recommendations

AG 32-1: FAS should reorganize its attache service, giving more authority to the head of FAAD. Such a reorganization should provide that the head of FAAD, through its attache network, be responsible for devising and implementing annual strategic plans for each country and geographical area. Other areas of FAS would be called upon to contribute to the formulation of these plans, but FAAD would have the main "line" responsibility for the execution of FAS objectives, and the other areas would have "staff" responsibilities.

AG 32-2: The head of FAAD should be responsible for appraising the work of the attaches. Consideration would be given to input received from other areas of FAS, but the final decision on a person's review would rest with FAAD.

AG 32-3: The attaches should not be held responsible for reporting requirements. Their paperwork should be confined to composing strategic plans, new business reports, and so on. Responsibility for routine reports should be clearly left to subordinates, leaving the attaches to do promotional work only.

AG 32-4: New measuring standards should be put in place to evaluate the promotional effectiveness of attaches. These could be, but are not limited to, such items as agricultural trade figures and trends, successful usage of P.L. 480, and guarantee programs made available to the host country.

Savings and Impact Analysis

There are no identifiable savings generated from this recommendation. The present organization, however, is conducive to wasted efforts and low productivity of attaches. Implementation of this recommendation would therefore result in ensuring that the monetary and human resources being spent are spent more effectively.

Implementation

All actions recommended may be implemented by the head of FAS with the concurrence of the Secretary of USDA and the Under Secretary for International and Commodity Programs.

AG 33: Improve Credit Evaluation Practices

Issue and Savings

The Commodity Credit Corporation (CCC) and the Foreign Agricultural Service (FAS) should do more credit analysis. Unknown, and perhaps unnecessary, risks are taken in the implementation of the Credit Guarantee Program (GSM-102). Savings cannot be measured, since they would be preventive; that is, with better credit analysis, loan defaults may be avoided.

Background

FAS, through CCC, grants credit guarantees to borrowers who purchase U.S. agricultural goods. The guarantee covers up to 98 percent of the total principal amount and up to 8 percent of the interest accrued on the guaranteed principal. The technical borrower is a foreign bank that opens a letter of credit on behalf of the buyer of the goods. That letter of credit is handled by a U.S. bank that lends the total amount of principal when all of the required documentation in the letter of credit is shown to be in good order. The loans from the U.S. bank to the foreign bank, with the partial guarantee of CCC, may remain outstanding for a maximum of three years.

CCC may grant up to \$2.8 billion in guarantees per fiscal year. Since the guarantees are given for a maximum of three years, the maximum average guarantees outstanding could reach approximately \$5 billion per year.

Methodology

Analysis has been based on personal experience with support information gathered from FAS and CCC personnel.

Findings

Any bank properly established in the United States may act as the lending bank which shares the risk with CCC.

There is no policy at FAS or CCC concerning the treatment of foreign banks properly established to do business in the United States.

Many foreign banks doing business in the United States are owned by their governments in their home country. This is especially the case in many developing countries, where the banking industry is nationalized.

It is possible for one nationalized bank to act as the borrowing bank and for another nationalized bank of the same country to act as the lending bank as long as the lending bank has authority to operate in the United States.

CCC establishes individual limits for each of the borrowing banks. This limit signifies the maximum amount of guarantees that CCC is willing to give for funds borrowed by that bank.

The individual limits are established by the Financial Operations Branch of the Agricultural Stabilization and Conservation Service (ASCS). The reason for this is that ASCS handles all of the accounting work for CCC.

The sole consideration for determining the individual loan limit is the net worth reported by the borrowing bank. The individual limit is then set at 100 percent of the net worth.

ASCS attempts to have borrowing banks provide their most recent financial statements in order to determine their net worth figure. When these financial statements are not provided, ASCS refers to the Rand McNally Bank International Directory. The statements provided in that directory are often one year old.

The exchange rate used to convert the net worth figure from the local currency to U.S. dollars is the one published in the Treasury Reporting Rates of Exchange issued quarterly by the Treasury Department. This rate is usually outdated, and no effort is made to obtain a more current exchange rate.

Country risk analysis is not done formally. During FY 1981, FAS received requests for credit guarantees totalling \$3.0 billion from 27 nations, of which \$946 million was turned down. However, only one country, requesting a total of \$25 million, was clearly identified as being rejected for country-risk reasons. A second country's requested amount was reduced by 40 percent for country-risk reasons. The rest of the turndowns and/or reductions were done for marketing reasons.

The U.S. Department of Agriculture (USDA) is fortunate that the program history is good. Despite the lack of adequate credit analysis, defaults have been few. Lebanon and Syria have defaulted, but the debt of both has been negotiated and is now on schedule. The sizeable debt of Poland is in default but cannot be renegotiated until diplomatic relations improve.

Conclusions

There is a gap in the sharing of risk with commercial banks as long as the program continues to allow foreign banks operating in the United States to lend to other banks in their country of origin. In these cases, the foreign bank operating in the United States is not capable of objectively ascertaining the country risk of doing business in its own country or origin. This issue is compounded when there is a relationship between the lending and the borrowing institution. The most common type of this relationship is common ownership by the government in the case of a nationalized banking system. Nevertheless, this relationship could be more subtle, such as common board of directors or a close depository/lending relationship.

The present system of establishing individual loan limits for foreign bank borrowers is a worthless and misleading exercise. Variables that should be considered, but are not, are leverage, return on assets, policy of bank on lending soft currencies, reserve for bad loans, and usage of other bank lines. The present exercise is also dangerously misleading because it gives the impression that some type of meaningful analysis is being done when, in effect, the Department is basing its loan limit on a single number on the balance sheet. That number is then translated at an outdated exchange rate and no periodic review is done.

Since FAS is responsible for granting credit guarantees and already performs the country-risk analysis, it appears that it, rather than the accounting arm of CCC (i.e., ASCS), should perform bank analyses and establish guarantee limits. That is, the responsibility for risk assessment should not be shared.

Recommendations

AG 33-1: FAS should screen the lending bank in the United States and exclude any foreign bank operating in the United States that has any relationship with the borrowing bank.

AG 33-2: The function of setting individual loan limits for borrowing banks should be transferred from ASCS to the Program Development Division of FAS. In setting the limits, FAS should undertake a more thorough analysis of the borrowing entity and should request and share confidential information concerning the borrowing bank with other commercial banks in the United States. This is standard practice among lending institutions of any kind.

AG 33-3: A more formal country-risk analysis is necessary. FAS should also endeavor to exchange and share country-risk information with other commercial banks in the United States as well as with other government agencies.

Savings and Impact Analysis

The above recommendations have no direct savings results. Nevertheless, FAS and CCC are taking unnecessary risks in the handling of their \$3.7 billion foreign guarantee portfolio. To the extent that CCC may be called to pay on those guarantees, properly assessing the risk of that portfolio is essential.

Implementation

All action recommended may be done through administrative changes in the organization handled by the Under Secretary for International Affairs and Commodity Programs.

AG 34: Use Export Promotion Funds for Interest-Free Loans

Issue and Savings

How should the U.S. Department of Agriculture (USDA) use the \$175 to \$195 million in funds appropriated for export promotion of U.S. agricultural goods? By granting interest-free loans for a portion of foreign purchases, USDA would effectively promote greater purchases from the United States. No savings would result, but the U.S. farm economy would benefit.

Background

The Budget Reconciliation Act of 1982 mandates that the Secretary of Agriculture shall utilize between \$175 million and \$195 million of funds appropriated by that Act for the promotion of exports of U.S. agricultural goods. The funds are appropriated for each of the following three years in such a way that the total expenditure is between \$525 million and \$585 million over a three-year period starting in FY 1982-1983. The Secretary of Agriculture has no discretionary authority not to spend the funds, since the Act makes it mandatory that the funds be spent for the specified purpose.

USDA is now considering how to use the appropriated funds most effectively.

Methodology

Interviews have been conducted with various FAS personnel, and the existing proposals for using the funds have been reviewed. Several alternatives to current proposals were considered, the best of which is presented here.

Findings

The Foreign Agricultural Service (FAS) is considering utilizing part of the available funds to reduce the cost of interest on borrowings by foreign countries that use proceeds of loans to purchase agricultural goods.

Issue AG 23 discusses a better way to achieve the objective of reducing financing costs on agricultural exports. Specifically, recommendations made in AG 23 would result in commercial access to funds at government rates, thus saving \$262 million to \$291 million in planned-interest buy-down costs.

If the recommendations in AG 23 are adopted, there will still be further opportunities for financing subsidies. In particular, interviews indicate that interest-free loans for a portion of the purchased value would provide significant incentives to buy agricultural commodities from the United States.

Conclusions

USDA's proposals for using the appropriated funds to subsidize interest on existing sales will not be the most effective way to promote increased sales. Recommendations made in AG 23 best address the financing subsidy issue.

Rather, FAS should utilize the available funds in such a way as to persuade potential buyers to purchase increased amounts of U.S. agricultural goods. This would be achieved by establishing a direct link between the benefit given to the purchaser of the goods and the commitment of that purchaser to buy a certain amount of additional U.S. agricultural goods in exchange for the benefit received.

Recommendations

AG 34-1: FAS should grant a direct loan to the purchaser, interest free, in return for a commitment from the purchaser to buy an agreed-upon amount of additional U.S. agricultural goods. The principal amount of this loan should be about 15 percent of the purchase value.

AG 34-2: The purchaser could be further encouraged to purchase the U.S. agricultural goods by offering to guarantee the 85 percent balance of the purchase under the GSM-102 program.

Savings and Impact Analysis

No savings are derived, since this proposal deals with spending new funds. To the extent that USDA must spend the funds, as mandated by law, this proposal constitutes what PPSS considers the most efficient manner of utilizing those funds and encouraging exports of U.S. agricultural goods by establishing the most direct quid pro quo arrangement with the purchaser.

Implementation

The funds have already been authorized by law. Implementation would have to be done by establishing the necessary regulations to organize the program.

E. LOCAL USDA PROGRAMS

Overview

USDA has a widely diversified and decentralized field structure which has provided an effective program delivery system at county, state, and regional levels. The vast majority of the Department's field officers function at the county level, dealing with farmers, ranchers, and the rural public.

As of May 1982, USDA had offices in 3,017 of the 3,099 agricultural counties throughout the nation, including Puerto Rico. Four agencies within USDA represent more than 80 percent of the county, local, or special project offices below the state level (excluding food safety inspection sites):

	<u>Number of County Offices</u>
Soil Conservation Service (SCS)	2,972
Agriculture Stabilization and Conservation Service (ASCS)	2,838
Farmers Home Administration (FmHA)	1,965
Cooperative Extension Service (ES)	3,000
Total	<u>10,775</u>

The Soil Conservation Service (SCS) administers the National Cooperative Soil Survey (NCSS) program, which is a joint effort between cooperating federal agencies, land-grant universities, and other state and local government agencies to map and publish modern soil survey reports for the entire United States. A soil survey is used by nearly all land users, both in the public sector and in the private sector.

USDA has been conducting soil surveys since 1896. SCS has had this responsibility since 1935. To date, 37 percent of total survey areas have a modern soil survey report published. In addition, 14 percent of the survey areas have published reports that are considered old or semimodern. These will need to be updated to meet current user needs.

AG-35 USDA County Office Structure

Issue and Savings

The structure of USDA county offices can be improved to reduce cost and improve effectiveness by colocating and consolidating ASCS, SCS, and Farmers Home Administration (FmHA) local offices. Responsibility for local conservation efforts, currently shared between state/local personnel and federal personnel, should, except for Federal District Conservationists, be assumed by state/local resources. An estimated \$33.7 million could be saved in FY 1984, and \$194 million over three years.

Background

USDA has a widely diversified and decentralized field structure which has provided an effective program delivery system at county, state, and regional levels. The vast majority of the Department's field offices function at the county level, dealing with farmers, ranchers, and the rural public.

As of May 1982, USDA had offices in 3,017 of the 3,099 agricultural counties throughout the Nation, including Puerto Rico. Three agencies within USDA represent nearly 60 percent of the county, local, or special project offices below the state level (excluding food safety inspection sites) as shown in Table II-15.

Table II-15
County Office Structure

<u>USDA Agency</u>	<u>Number of County Offices</u>	<u>Approximate Number of Field Office Personnel</u>
Soil Conservation Service (SCS)	2,972	6,000
Agriculture Stabilization and Conservation Service (ASCS)	2,838	12,400
Farmers Home Administration (FmHA)	1,965	12,500
Total	7,775	30,900

Our study centered around the county or field office structure of ASCS, SCS, and FmHA. The Cooperative Extension Service (ES), with 3,000 county offices, was not in the scope of our study since Federal influence over these operations is limited. Over the years, the concern has been that these field offices be located and structured so as to provide the best service delivery directly to local agricultural producers and fulfill program missions most effi-

ciently and effectively at the least cost to the Federal Government.

Since the creation of these agencies over 35 years ago, the composition of American agriculture and rural communities has experienced continuous change. These changes include:

- * A decline in the number of farms,
- * An increase in average farm size,
- * A dramatic increase in the number and variety of USDA programs and services to farmers and other rural groups,
- * Major changes in USDA program content and complexity,
- * The improvement of rural communications and transportation.

Modifications to the field structure of USDA agencies have been necessary to meet the changing demands of rural areas for the delivery of services in a cost-effective manner.

This study focuses on two major structural modifications which appear to have the greatest impact on the cost-effectiveness of local service delivery--colocation and consolidation:

- * Colocation -- locating all three agencies (FmHA, ASCS, and SCS) together in the same building, situated so that office personnel can communicate easily with each other. Their proximity encourages the optimization of resource sharing between these agencies for common office areas, equipment, and support personnel, especially during field travel or peak work loads. Colocation also provides local producers with the convenience of "one-stop service" for all local USDA services.
- * Consolidation -- combining the operations of an agency's small local offices with other offices of the same agency located in the same area. Consolidation reduces the overall costs of local service delivery by decreasing the number of local offices and increasing processing efficiencies due to economies of scale. This policy also provides local producers with the improved services avail-

able from offices with larger, more specialized staffs.

In addition to the general subjects of colocation and consolidation, the Task Force examined the scope of local soil conservation. All 50 states, Puerto Rico, and the Virgin Islands have established conservation districts to meet the problems of erosion control. These Soil and Water Conservation Districts (SWCDs) are staffed by about 5,400 people (as of January 1982) and are governed by noncompensated boards of three to five locally elected farmers. Working alongside and in conjunction with the SWCDs are about 3,400 SCS technical and support personnel, who report to about 2,500 SCS District Conservationists (DCs). SCS funding for those personnel below the DC level is \$92.3 million.

Methodology

To analyze the impact of colocation and consolidation on the costs and service levels of local USDA offices, we reviewed previous reports and studies concerning colocation and consolidation. Several site interviews were conducted and the Automated County Office Work Measurement System allowed us to model the office structure, after all the small offices were consolidated, to help quantify the savings.

In addition to reviewing existing studies and conducting interviews, we conducted a telephone survey of 99 randomly selected farmers across the nation during the week of September 13, 1983.

Findings

From our review, we developed the following major findings:

1. General

- * The mission of each USDA agency which provides services to local agricultural producers is different and, as a consequence, each agency requires the support of a local service delivery system that has been designed to best fulfill its mission in a cost-effective manner.
- * Past efforts to increase the effectiveness of local service delivery through increased colocation and consolidation have been only modestly successful.
- * The approach used in developing and implementing certain colocation and consolidation policies in prior years has been inflexible and overly aggres-

sive and incorporated a number of associated modifications to the local service delivery structure. These situations created substantial resistance from local producers, USDA personnel of the affected agencies (especially those involved at the local level), and elected representatives.

- * The resistance of local farmers to modifications in USDA's local service delivery system does not appear to be strongly related to the increased travel distances that may result from colocation/consolidation of existing local offices if the increase in these distances is not substantial. A clear majority of the farmers surveyed frequently traveled significantly greater distances in their normal course of business than is required to reach their local USDA office.

2. Colocation

- * The approach used in developing and implementing the current colocation policy has generated far less resistance; however, it is proving to be ineffective in accelerating the pace of colocations. The present USDA colocation policy provides for a "bottom-up" approach and is an outgrowth of the creation of interagency administration and policy committees at the national, state, and local level in 1978 during the administration of Secretary Bergland. Since that time, the number of offices that are "de-colocating" has increased sharply.
- * A standard cost/benefit analysis for colocation is difficult to estimate with precision, since it varies on a case-by-case basis; however, we have observed the intangible benefits of colocation during our visits to local offices in our interviews with local USDA personnel and in our discussions with the telephone survey of local producers.
- * Colocation in sites convenient to the farmer is made difficult by the application of Executive Order 12072 of August 16, 1978, which focuses on using centralized Federal space, which is often located in downtown urban centers not convenient to the farmer. A GAO report (CED-79-74 of April 25, 1979) concluded that "USDA's offices should be located wherever they are most needed to meet rural development objectives and agency program missions efficiently and effectively."

3. Consolidation

- * FmHA office requirements are determined primarily by case loading and the demographics of the FmHA customer. FmHA resource analyses indicate only a few situations in which there is sufficiently low case loading to consider consolidation; however, the demographics in those areas (e.g., travel distances involved) militates against any closure of FmHA offices in order to consolidate them.
- * Of the 2,838 local ASCS offices, 657 can be identified as small offices, that is, those whose normal annual workload could be processed in 810 normal work days or less. This would equate to about three full-time equivalent (FTE) personnel or less.
- * By law, each ASCS county office must remain open during established office hours. This is often difficult in small offices with only one to three people.

4. Soil Conservation Service

- * SCS personnel at the local level spend most of their time working with individual land users in conservation planning and application. They are not involved in such USDA tasks as the soil surveys.
- * The skills of the local SCS technicians and support personnel duplicate those of the locally funded SWCD technicians and support personnel. These two groups work as one, and there is little distinction perceived between them.

Conclusions

Although colocation has been proceeding, it has slowed in recent years and, in fact, de-colocation has taken place. The value of "one-stop" shopping for the farmer, as well as the potential for shared space and support services, indicates that colocation should be reinstated.

Consolidation of ASCS offices to eliminate small offices could yield several benefits:

- * Reduced facility operating costs;
- * Reduced manpower through increased processing efficiency, which should be possible in more fully staffed offices;

- * Provision of a broader range of technical expertise and, thereby, more or better service to the farmer/customer.

To be accepted by the ASCS customer, consolidation decisions need to consider any unique service requirements which would justify keeping a small office open, that is, a "meat ax" approach to consolidation will be as unsuccessful as some past efforts. However, exemption from the consolidation objective should be granted only when it is clearly justified, and alternative cost-saving moves that would still meet service requirements should be considered as a part of the exemption-decision process.

FmHA appears to be properly structured for its present work load; however, potential reductions in the FmHA work load, proposed in earlier Task Force issues, could justify reconsideration of the value of consolidation.

The local SWCDs, under local farmer supervision, are more in tune with local conservation needs and are capable of technically addressing these needs. The federal role of SCS appears to more appropriately be one of setting and monitoring policies and goals. To fulfill this role, only a District Conservationist (DC) plus trainee support is needed in the field. Eliminating duplication at the technician and support level should result in improved efficiency for lower total expenditures.

Since the nature of the SCS technical support and therefore, the level of the technical support is based on local needs, it can be argued that the local beneficiaries of this service should bear its costs. That is, local taxpayers should pay for what is, essentially, a local service rather than assigning this cost to the general Federal taxpayer. Local control and local funding responsibility should lead to more cost-effective staffing and service.

Recommendations

AG 35-1: The Department of Agriculture should more aggressively pursue colocating ASCS, SCS, and FmHA county offices and consolidating ASCS offices. In addition to issuing the necessary directives, specific targets must be established, and procedures for monitoring progress against these targets must be implemented. Headquarters can further "audit" progress by closely monitoring such items as lease expirations, proposed facility improvements, and so on.

AG 35-2: The President should allow USDA a special exemption from Executive Order 12072 to permit the location

of consolidated or colocated county offices to be more accessible to farmers.

AG 35-3: SCS should, over a three-year period, phase out all conservation technical assistance below the level of the DC, turning this responsibility over to the states and localities. During the phase-out, direct funding of SCS technical personnel should cease. These personnel should be transferred to the SWCDs and a three-year declining level of grants to the states to cover transferred personnel should be implemented.

Savings and Impact Analysis

We estimate that, over the next three fiscal years, the successful implementation of our recommendations will generate the cost savings shown in the table below. These savings are primarily in the areas of consolidation and SCS transfer, since time did not permit quantification of colocation savings, which will involve many individual decisions and actions.

Savings in County Office Structure (\$ millions)

Agency	(Year 1) FY 1984	(Year 2) FY 1985	(Year 3) FY 1986
ASCS	3.7	7.4	11.2
SCS	30.0	60.0	81.5
FmHA	--	--	--
Total	33.7	67.4	92.8

These savings primarily come from the transfer of 3,000 people from Federal funding to state and local funding in SCS and consolidation of ASCS offices. The local funding of SCS assumes grants of \$81.5 million in FY 1983, \$51.5 million in FY 1984, \$21.5 million in FY 1985 and zero in FY 1986. The ultimate saving of \$81.5 million allows 15 percent of current costs for technical/support personnel to be retained as a Federal obligation to cover trainee support for the DCs, who will continue to be federally funded. State and local funding needs to cover transferred Federal personnel are expected to decline as duplication of effort is weeded out.

The ultimate (i.e., FY 1986) ASCS consolidation savings of \$11.2 million consists of a saving of \$4.7 million in facility operating costs for closing 657 small offices (i.e., 11.9% of total ASCS facility operating costs) and a reduction of approximately 400 persons (3.2% of ASCS field personnel) achieved by improved processing efficiency, resulting in a \$6.5 million annual savings. These savings

were developed statistically by using ASCS's County Office work-load measurement system and by assuming that facility costs are roughly proportional to the number of employees in the facility. In actuality, facility costs per person are likely to be higher in the small facilities we propose closing. Thus, our estimate is conservative. The greater savings that are likely would be offset by unquantified closing and transfer costs.

Implementation

AG 35-1 is under the authority of USDA. AG 35-2 is under the authority of the President. AG 35-3 requires Congressional authority. In addition, procedures need to be implemented to allow transferred personnel to retain retirement benefits already accrued.

AG 36: ASCS - County Office Automation Study

Issue and Savings

The current USDA implementation schedule for the automation of county offices should be accelerated by two years. Actual full savings would accrue after 1985, rather than after 1987 as in the USDA plan. The present value of only the acceleration of future savings would be \$2.7 million.

Background

ASCS is the USDA agency that is responsible for administering specific commodity and land-use programs designed for voluntary production adjustment, resource protection, and price, market, and farm income stabilization. ASCS delivers these programs to agricultural producers at the local level through 2,838 local offices, nearly 1 office for each of the 3,051 agricultural counties in the nation.

In each of these county offices, ASCS personnel provide a wide range of services to local producers. The exact nature of the services provided by each office varies depending on the composition of agriculture in the area, the condition of the local farm economy, and the specific needs of local farmers and ranchers; however, most of the basic tasks completed by ASCS county office employees are common to all offices and are generally clerical in nature.

ASCS controls the productivity of the manual effort dedicated to completing these tasks through the County Office Work Measurement System (COWM). COWM also provides basic data to the County Office Funds Allocation (COFA) system, which determines the amount of funding received by each county office. The objective of the COFA system is to

allocate the funds available for county office operations to individual county offices on a fair and equitable basis.

With the exception of Crawford County, Kansas, all work activities in the county offices are completed without the assistance of computers. All the required work load is processed manually. In FY 1981, the amount of manual effort expended by the local employees of ASCS to process the work load exceeded 3,290,000 workdays.

The County Office Automation Study (COAS) was established to evaluate the implementation of an automated system. In the first phase of COAS, a pilot test of the automated county office system was conducted at the ASCS county office in Crawford County, Kansas. The test was conducted from May 1980 to March 1982.

After the successful completion of the pilot test in Crawford County and the publication of the COAS evaluation team's findings, work on a second pilot study was begun. This next pilot test is to be conducted in seven county offices located in different states and different crop-growing regions of the Nation.

The main objective of the second pilot test is to evaluate the performance of COAS in several county offices that administer different compositions of ASCS programs. This test is scheduled to run more than 12 months, so that an entire crop year can be included in the testing. The second pilot test is scheduled for completion during December 1983.

Methodology

The methodology used in the analysis of this issue included the review of pertinent available documentation, such as the project status reports and the final evaluation of phase I and the planning documents for phase II.

We conducted several interviews with ASCS personnel in Washington, D.C., at the state level and at the county level. In addition, we visited the county office automated during the first pilot test (Crawford County, Kansas) and conducted interviews with the County Executive Director and several staff members of that office. While in Crawford County, we had the opportunity to observe the automated system in actual operation.

Findings

The results of the first pilot test conducted in Crawford County, Kansas, are very positive and provide strong support for the county office automation effort.

County office employees, local producers, and the members of the evaluation team identified several major benefits of the automated system, including increased accuracy and timeliness of data; reduction or elimination of redundant or tedious manual tasks; radically increased service levels, especially as this relates to direct contact with local producers (e.g., "counterwork"); and reduction or elimination of office equipment that performs services available from the minicomputer (e.g., addressograph machines, typewriters, filing cabinets).

The major quantifiable benefit from the test was the amount of personnel time saved by automating previously manual tasks. The automation of the Crawford County office reduced the annual manpower requirements by 233 workdays, or 10.4 percent of the total personnel time incurred in FY 1981. At an average cost per workday for ASCS county office personnel of \$70.81, this amounts to \$16,500 in annual savings on recurring costs. On this basis alone, the installation of the Data General CS/10 at a total cost of \$27,300 would have a payback of only 1.6 years. Further savings in personnel time will be achieved as more manual tasks are assumed by the automated system. At the completion of the first pilot study, only 60 percent of the software intended for the automation of manual county office processes was in place.

The current schedule for the remainder of the county office automation project anticipates that all automated systems will be in place and functioning by the last half of calendar year 1987.

In our discussions with ASCS personnel responsible for the COAS planning, we were made aware of a few issues that ASCS personnel have identified as open points requiring disposition during the automation project but that have not yet been resolved:

- * The general approach to determining the priorities in scheduling the installation of automated systems in state and county offices has not been established. The decision on whether to automate state or county offices first has not been made.
- * The development of priorities for scheduling the implementation of automated systems at county offices has not been established. ASCS has not identified the county offices which will be automated and has not determined the priorities that will be used in scheduling the automation of these offices.

- * The impact of county office automation on the COWM and COFA systems has not been determined. A plan for the modification or replacement of these systems during the automation project has not been developed.

Conclusions

From our findings, we have developed the following conclusions:

- * The nature of most tasks performed by ASCS county office staffs provides substantial opportunities for automation.
- * The results of the Crawford County pilot test are sufficient to support a more aggressive implementation plan and schedule for county office automation.
- * The current implementation plan and schedule is not aggressive. The dollar cost savings can be substantially increased by accelerating its completion.
- * The impact of all pertinent open issues, including those identified herein, on the county office automation effort should be determined and should be resolved well in advance of phase III, since these open issues will affect the procurement and installation activities.

Recommendations

AG 36-1: The Chief of ASCS should direct the appropriate ASCS personnel responsible for the county office automation effort to complete a comprehensive detailed implementation plan for all remaining work required to complete the automation effort.

AG 36-2: The Chief of ASCS should require the development of a more aggressive implementation schedule for the completion of the project. This schedule should provide for the completion of the project by the end of calendar year 1985.

AG 36-3: To assist in the management of the project, the Chief of ASCS should arrange for the procurement of an automated project management software product which incorporates a critical path scheduling method.

Savings and Impact Analysis

Based upon an extrapolation of the results of USDA's Crawford County pilot study, the annual savings on recurring costs resulting from the automation of county offices as planned by USDA will be \$24 million, a saving not claimed by PPSS.

Under the PPSS-proposed accelerated implementation plan, ASCS would begin receiving this full annual cost benefit after 1985, rather than after 1987. Partial savings would begin to accrue in 1984 under the PPSS acceleration.

Following a present value analysis at 10 percent interest, the present value of the cost saving obtained only from accelerating the implementation schedule is \$2,700,000.

Implementation

The Department has the authority to implement these recommendations.

AG 37: Reduce Soil Survey Costs

Issue and Savings

The soil survey process should be improved to accelerate publication schedules and to reduce costs. An estimated \$300.8 million in 1982 constant dollars could be saved over the remaining 17 years of the project, and the average elapsed time for completing a soil survey could be shortened by 46 percent (from 116 months to 63 months). Only \$10 million could be saved the first year, after a two-year implementation period, with \$50 million saved in the first three years following implementation.

Background

SCS administers the National Cooperative Soil Survey (NCSS) program, which is a joint effort between cooperating Federal agencies, land-grant universities, and other state and local government agencies to map and publish modern soil survey reports for the entire United States. A soil survey is used by nearly all land users in both the public sector and the private sector.

Total funding for NCSS is \$72.4 million in FY 1982. The Federal Government's share is approximately 80 percent. The balance is funded by states and counties. SCS portion of Federal funding was \$58.6 million in FY 1982. The NCSS program is the third largest expense category in the SCS

budget, and it is the second largest employment category in SCS annual operations.

USDA has been conducting soil surveys since 1896. SCS has had this responsibility since 1935. To date, 1,151 or 37 percent of the 3,105 total survey areas have a modern soil survey report published. In addition, 14 percent of the survey areas have published reports that are considered old or semimodern. These will need to be updated to meet current user needs. At the current rate of publication (113 reports per year), the NCSS program will not be completed until the year 2000. Total costs, expressed in 1982 dollars, could exceed \$1.25 billion. The Federal portion, at the present rate of cost sharing, could exceed \$1 billion.

Methodology

We conducted more than 75 interviews with SCS personnel, other participating entities, and outside consultants. We visited field operations at the county, area, and state levels. We visited the SCS Soil Laboratory and National Technical Center (NTC) in Lincoln, Nebraska; the SCS Cartographic Center and NTC in Ft. Worth, Texas; the ASCS-APFO in Salt Lake City, Utah; and the Editorial Center in Lanham, Maryland. We met with SCS project leaders in Washington, D.C., as well as USDA and Government Printing Office (GPO) publication specialists.

Our goal was to determine present production procedures, standards, and results. We evaluated the entire process in order to make recommendations to reduce bottlenecks, improve efficiency, and publish soil survey reports faster and at a lower cost.

Findings

The soil survey process is long, complex, and highly decentralized, requiring close coordination of local, state, regional, and national resources. SCS is not achieving the production standards that were last updated in 1976. Considerable delays occur throughout the process. Supervision is difficult because no one appears to be accountable for the timeliness of each stage or of overall completion schedules.

A study of 25 randomly selected reports published in FY 1982 indicated that field mapping required 1.7 to 8.3 years to complete versus 3- to 5-year standard expectations.

Considerable delays and additional expense occur in every phase of the process after field mapping is completed.

SCS's goal is to publish a report within 12 months after field mapping is completed; 1976 standards require 16 months. A survey of 50 randomly selected reports published in 1982 indicated an average of 44 months elapsed between field mapping completion and publication date.

SCS has a considerable backlog of unpublished reports that were originally scheduled for publication between 1977 and 1981. As of February 2, 1982, 110 reports still had not been published.

The average cost of printing a soil survey which on average covers 625,000 acres, is approximately \$656,000. Field mapping represents about 80 percent of the cost, with the remainder covering editing, map preparation, and printing.

The Computer-Assisted System for Published Soil Survey (CASPUSS) is used by SCS to track the current status of in-progress soil surveys and to assist in the coordination of soil survey activities. CASPUSS, however, does not adequately control the elapsed time required to complete work activities because it permits each division currently responsible for work on a soil survey to alter its scheduled completion date. The use of CASPUSS as an effective management tool to schedule, monitor, and control completion of the overall project is, therefore, severely restricted due to its failure to (1) identify work activities, (2) determine resource requirements, (3) collect appropriate cost data, and (4) maintain the soil survey schedule.

Conclusions

The time frame for completing soil surveys can be reduced significantly with no reduction in the quality of the final product. A key factor in reducing the time and costs for soil survey activities is the replacement of CASPUSS with an effective project management system.

Soil survey field work should not be initiated until photobase material for soil maps, as provided by NHAP imagery, is available. Soil survey maps should be published on planimetrically correct photobase material so that automatic mapping systems now being implemented can be fully utilized.

Implementation of automatic mapping systems should be pursued vigorously. Until these systems are fully utilized, however, much of the map finishing work could be performed more efficiently by outside contractors.

The soil survey manuscript appears to be overedited. A much more efficient editing procedure is possible by shifting the responsibility upstream to the NTCs. The role of the Editorial Center should be to edit only proofs from the GPO Video-Comp machine. Modern word processing equipment and software systems that are compatible all the way through the system should be installed at the NTCs to replace obsolete editing equipment.

Time savings in manuscript and map preparation can be improved by forwarding draft field sheets to the state level so that editing and map finishing are done concurrently with field mapping. Overall, parallel activities, rather than series activities, should be implemented throughout the soil survey process.

Improvements in the coordination of manuscript printing and contracting with GPO will shorten elapsed time and improve quality.

We conclude that a 20 percent improvement (from 60 months currently to 48 months) in the rate of field mapping can be achieved by providing each field team with top quality photo-imagery, staffing them at an optimal level, and increasing the performance expectations for the rate of field mapping.

We conclude that the elapsed time to publish a survey report after field mapping is completed can be reduced to 9 months from 44 months currently (an 80% reduction) and compared with SCS current 12-month target.

The soil survey is considered highly valuable by users and is considered to be a high quality and accurate resource document.

Recommendations

AG 37: Decrease the overall elapsed time to complete soil surveys by better management techniques, redefinition of work relationships with other government units, and the use of modern technological improvements. Following are specific recommendations:

AG 37-1: Implement an effective project management system to assist responsible SCS personnel in the planning, monitoring, and control of the soil survey. This system would replace the existing status reporting system, CASPUSS, and would provide the following function:

- * Identification of all soil survey work activities;

- * Definition of the resource requirements and scheduling interrelationships of work activities;
- * Assignment of responsibilities for the completion of each work activity to appropriate SCS operating sections, other agencies, or outside contractors;
- * Collection of actual time and costs incurred for each activity;
- * Monitoring of actual time and costs against standards to identify significant variations;
- * Monitoring of actual progress against schedule to detect schedule slippages;
- * Assistance in the development and maintenance of the project schedule incorporating the impact of current project status, resource requirements and constraints, scheduling interrelationships, and production priorities.

AG 37-2: Revise the time-frame expectations for completing each phase of the soil survey. The goal should be to eliminate bottlenecks in the process and to utilize existing technology and systems for achieving a faster rate of production and lower unit cost for the soil survey by FY 1986.

AG 37-3: Conduct a detailed cost-benefit analysis for certain new equipment items, including word processing and editing systems. Upgrade the soil survey word processing systems to eliminate unnecessary rekeying of the manuscript and to gain the efficiencies of modern text-editing capabilities. At the Editorial Center level, the central processor should have composition software to automatically produce Video-Comp tape from the edited manuscript disc or tape.

AG 37-4: Schedule soil survey activities in such a way that rectified enlargements of CIR aerial photographs from NHAP program are available for field mapping at the time field work is initiated.

AG 37-5: Order orthophotoquads from NHAP material at the start of the soil survey program so that soil maps are published on a planimetrically correct base and automatic mapping systems can be utilized to the fullest extent possible for soil survey publications and development of new soil interpretive maps.

AG 37-6: Negotiate a modification of the U.S. Geological Survey (USGS)/SCS NHAP agreement that will provide greater SCS involvement in accepting or rejecting work by aerial photography contractors.

AG 37-7: Shift more of the map finishing work now done in state offices to private contractors until such time as this work is eliminated by automatic mapping systems.

AG 37-8: Intensify efforts to increase utilization of automatic mapping systems that include digitizing and coding of map data for computer-generated production of soil survey publication maps and interpretive soil maps.

AG 37-9: Utilize ASCS digital planimeter equipment to determine acreage and proportionate extent of soils in survey areas to reduce time for this task by nearly 65 percent.

AG 37-10: Seek authority to have direct coordination with GPO for manuscript proof processing and editing runs on the Video-Comp machine.

AG 37-11: Seek authority from GPO to have "direct deal" contract authority for manuscript printing and binding. A precedent exists for SCS to deal directly with contractors for map printing, and SCS has achieved time efficiencies and low cost under this method. Continue to use the GPO contract standards, contract bidding, contract letting, and contract problem resolution procedures.

Savings and Impact Analysis

These recommendations, once fully implemented, should save an estimated \$300.8 million over the life of the NCSS program, calculated as shown in Table II-16.

Table II-16
Savings on Survey Costs

<u>Cost Area</u>	<u>Budget (\$ millions)</u>		<u>Savings (\$ millions)</u>
	<u>Current</u>	<u>PPSS</u>	
Field mapping (80% of total costs and 20% PPSS improvement)	1,002.4	801.9	200.5
Post-field mapping (20% of total costs and 40% PPSS improvement) ^{1/}	250.6	150.3	100.3
Total remaining project	1,253.0	952.2	300.8

^{1/} It is assumed that only half of the 80% reduction in post-field mapping time will translate to cost savings; i.e., for about half of the excess time per survey, no work is being done on that survey while personnel are working on other surveys.

It is expected that about two years will be required to implement the PPSSCC recommendations during which time any savings will be offset by implementation costs. (Note: upgrading of obsolete editing equipment, likely to be needed in any event, is not considered an implementation cost of this plan.) In the first year following implementation, savings of only one-half the annual savings of \$20 million (i.e., \$10 million) are anticipated. Since all savings are expressed in 1982 constant dollars, an equal cost/saving alternative on a present value basis would be to complete the soil survey project in 1995 versus 2000; i.e., 5 years earlier by increasing annual report production.

Implementation

These recommendations are under the control of the Department.

AG 38: Soil Survey User Fee

Issue and Savings

A user fee should be implemented to offset a portion of the cost of the soil survey program. An estimated \$4.0 million could be generated in FY 1983, and \$8.3 million annually thereafter, or \$21 million over three years.

Background

The Department of Agriculture is required by statute to make available soil surveys needed by states and other public agencies.

SCS is the Federal agency responsible for administration of the NCSS, a joint effort between cooperating Federal agencies, state and local agencies, and land-grant universities. Its purpose is "to make soil surveys to obtain an inventory of the nation's soil resources; record the location of soils; predict soil performance under defined use and management; enable the transfer of soil information from one location to another; and fundamentally contribute to the knowledge and understanding of our land resources."

At present, Soil Survey program administrators interpret the USDA regulations as not authorizing a user fee for a soil survey report. The reports are made available to the public at no charge. Reports from 1,197 survey areas out of 3,105 have been published. This represents 31 percent of total acres in the United States or 39 percent of survey areas. Approximately 10 percent, or 323 survey areas, currently have field mapping completed and the soil survey report (the primary final product) is in various stages of completion. There are 377 survey areas (12%) that have field mapping under way at the present time.

The Federal Government currently funds eighty percent of the cost of annual operations. The balance is contributed by state and local government entities through various cost-sharing programs. Federal funding in FY 1982 was \$58.6 million.

Methodology

The interview approach was used to determine the perceived value of the soil survey report to its principal users. Several SCS personnel familiar with the soil survey at the Federal, state, area, and local levels were interviewed. SCS provided information on costs, volume, and production progress.

Findings

SCS considers the soil survey to be one of the most important technical tools available for conservation planning and applications of conservation practices at the local level. Our findings confirmed this. We also found that the soil surveys are used extensively for land value analysis; farm management; road, highway, and building construction planning; and sanitary systems design. Overall, we found

that the soil survey publications are considered very valuable by a variety of government and private sector users.

In addition to extensive use by SCS, other Federal agency users include the Forest Service, Farmers Home Administration, Cooperative Extension Service, Army Corps of Engineers, Office of Surface Mining, Fish and Wildlife Service, the Internal Revenue Service, and others. State agency users include Departments of Agriculture, Revenue, Transportation, Mines, Commerce, and Public Health.

Although government agency use is extensive, the largest number of users of soil survey reports is in the private sector. These users include landowners, farmers, real estate agents, appraisers, banks, engineering consulting firms, and construction companies.

Conclusions

A large market exists in the private sector for modern soil survey reports and soil interpretative maps. These maps are beginning to be computer generated through the implementation of automatic mapping systems.

In order to charge individuals for soil survey reports and/or interpretative maps, USDA needs to change its regulations regarding these publications.

Most individuals and private sector groups would not likely pay the full cost of a soil survey report. Since government units derive considerable benefit from the soil survey, it does not appear to be appropriate to charge private sector groups and individuals for the full cost indicated by the cost-per-book estimates presented above. Considering the cost-sharing contribution of state and local government entities, some revenue sharing arrangement may be necessary.

Since soil survey reports may vary considerably in size and cost, a user-fee schedule should be flexible enough to reflect these differences.

Recommendations

AG 38-1: The Secretary of Agriculture should initiate a rule-making procedure to amend regulation 7 CFR Section 611.11 to gain authority to assess a \$25 user fee for private sector use of the Modern Soil Survey and associated special maps and for other uses of digitized soil information derived from the survey effort.

AG 38-2: The Secretary of Agriculture should direct SCS to devise a revenue-sharing arrangement with state and local government agencies cooperating in the NCSS that represents their respective contributions toward the total cost of the soil survey.

AG 38-3: SCS should develop a cost accounting system capable of identifying the exact costs associated with each Modern Soil Survey in order to equitably share revenues with cost contributors.

Ag 38-4: SCS should devise a cost-effective method for collecting and accounting for the user fees.

AG 38-5: The Secretary of Agriculture should seek legislative authority to establish a special account that will allow SCS to utilize the Federal portion of all proceeds from the sale of soil surveys and related materials to offset future costs of completing the NCSS.

Savings and Impact Analysis

This recommendation would generate \$8.14 million annually for the Federal portion (80%) of receipts from the sale of soil survey reports alone. We would expect some slackening in demand as a result of the imposition of a user fee. A 20 percent reduction was assumed in these calculations. Some additional savings would be realized by the reduced demand and the subsequent need to print fewer soil survey books. This would amount to approximately \$0.16 million per year, using the following assumptions and calculations:

* Average number of copies printed for each soil survey report	5,000
* Less estimated number of complimentary copies and copies distributed to state and local cost contributors	<u>- 500</u>
	4,500
* Less estimated 20 percent decreased demand due to imposition of a user fee	<u>-900</u>
* Total soil survey reports available for sale to the private sector	3,600
* Estimated average price per book	<u>x \$25</u>
* Total revenue per soil survey report	\$90,000
* Average publication rate (reports per year)	<u>x 113</u>

*	Total estimated revenue	\$10.17 million
*	Federal Government share (80%)	\$8.14 million
*	State and local share (20%)	\$2.03 million
*	Estimated printing savings due to reduced demand	
-	Reduced demand per report	900 books
-	Marginal printing cost	<u>x \$1.50</u>
-	Savings per report	\$1,350
-	Average annual publication rate	<u>x 113 reports</u>
-	Annual savings	\$0.16 million

The revenue-sharing arrangement with state and local contributors should provide added incentive for them to promote the use of soil surveys by the private sector. For each additional book that is sold, their actual dollar cost is reduced by the proportion of their cost contribution to the total cost of the project. In the example above, this could amount to \$2.03 million annually for state and local contributors.

Due to the time lag involved in obtaining authority to charge user fees, setting prices, and implementing working procedures, we estimate that approximately 50 percent, or \$4 million, could be generated in FY 1983.

Implementation

Except for AG 38-5, these recommendations are under the control of the Department. AG 38-5 requires Congressional approval.

Additional Information

It should be noted that savings from increased soil survey fees will also be reported by the cross-cutting PPSS User Charges Task Force.

AG 39: Consolidate SCS Administrative Staffs

Issue and Savings

SCS administrative staffs at the level of State and National Technical Centers should be consolidated to in-

crease productivity and reduce costs. An estimated \$2.4 million could be saved in FY 1984, and \$5.7 million annually thereafter, or \$14 million over three years.

Background

SCS was established in 1935 pursuant to P.L. 74-46. SCS provides technology transfer through soil conservation districts to land users, communities, watershed groups, Federal and state agencies, and other cooperators who have erosion control and water management problems in order to bring about needed land treatments and physical adjustments in land use.

Program activities of SCS are carried out through more than 3,000 field offices in the 50 states and Puerto Rico. These include offices at the state, area, and district levels. Four National Technical Centers (NTCs) provide program coordination and professional technical support services such as engineering, cartography, soil science, and plant science for specific geographic areas.

Administrative functions such as personnel, budgeting, accounting, contracting, procurement, real estate, and equipment management are carried out by 53 administrative staffs below the national headquarters of SCS. These include administrative staffs in 48 state offices, the four NTCs, and Puerto Rico. Five Assistant Chiefs with geographic responsibility different from the NTCs supervise NTC directors and represent designated areas for overall agency planning.

The FY 1982 budget for SCS administrative staff salaries below the national headquarters level was \$15,441,466, plus \$300,000 for an administrative trainee program, bringing the total to \$15,741,466. This is expected to remain essentially the same for FY 1983.

Methodology

The interview technique was the primary methodology used to analyze this issue. We interviewed SCS personnel at the national, state, and district levels and at the NTCs. We visited state and district offices in Illinois, Kansas, and California and we visited the NTCs at Lincoln and Ft. Worth. We also visited other USDA agency field offices to compare administrative operations.

FY 1982 staff and budget levels were obtained for each state and NTC from the SCS national headquarters. These were analyzed to compare differences based on the size and location of offices. Preliminary ideas on consolidation of

administrative staffs were discussed with SCS personnel in Washington. A scenario for consolidating administrative staffs at the four NTCs was developed, with proposed staffing levels based on economies of scale that appear possible from our examination of the administrative staffs now in place.

Findings

The 53 administrative staffs below the SCS national office level were composed of 803 permanent full-time positions in 1982. In addition, there are 15 administrative trainee positions funded annually by SCS, at a cost of \$300,000, to maintain administrative staff levels at the state and NTC offices.

The administrative staff percentage of total permanent full-time employment at state offices ranges from 3.8 percent to 12 percent. The more efficient offices from an administrative standpoint tend to be the larger ones. Economies of scale are achieved in the larger offices through specialization and automation. Because the full range of administrative tasks is performed at each state and NTC office, the majority of the administrative staff personnel must be generalists rather than specialists.

Conclusions

The 53 SCS administrative staffs below the national office level can be consolidated into four administrative offices located at the NTCs in Broomall, Ft. Worth, Lincoln, and Portland. The geographic area served by each of the four area staffs should be the same as that now served by the respective NTC. This consolidation would provide the following advantages for SCS.

- * Economies of scale in the consolidated administrative staffs and reduction of total administrative costs
- * Upgrading of professional administrative personnel and employment of specialists in administrative areas
- * An improved career ladder for administrative staff employees, with fewer transfers between state offices
- * Improved recruitment and retention of administrative staff employees

- * Increased utilization of Harris terminals for financial management, information management, and communications
- * More timely information and data flow among national, regional, and state offices
- * Elimination of the administrative trainee program now operated by the national office.

It is our conclusion that consolidating administrative staffs at the regional level would improve services, teamwork, and staff morale in addition to providing greater employee productivity through modernization of financial, personnel, and information management systems.

Recommendations

AG 39-1: Reduce the number of SCS administrative staffs below the national headquarters level from 53 to 4 by forming consolidated administrative staffs located at the SCS NTCs to serve the same geographic areas as the NTCs.

AG 39-2: Change the geographic area responsibility of SCS Assistant Chiefs to conform to the same areas served by the NTCs and the new consolidated administrative staffs.

AG 39-3: Upgrade the professional level of administrative specialists in the new regional administrative centers to provide more efficient administrative services and to establish an improved career ladder for administrative staff personnel.

AG 39-4: Eliminate the national administrative trainee program by establishing career development programs within the new regional administrative staffs.

Savings and Impact Analysis

Projected savings from consolidating SCS administrative staffs are as follows:

Annual savings in salaries	\$4,543,466
Retirement and disability (20.4%)	923,867
Health and life insurance (3.9%)	177,195
Other benefits (1.9%)	<u>86,326</u>
Total Annual Savings (290 FTEs)	\$5,730,854
Less one-time moving costs	<u>-3,360,000</u>
First year savings	\$2,370,854

Implementation

Implementation authority for consolidating administrative staffs as proposed rests with the Chief of SCS.

AG 40: ASCS County Committee Elections

Issue and Savings

The ASCS county committee election procedure should be streamlined. Voter turnout could be increased and \$7.8 million could be saved annually beginning in FY 1984, and \$26 million over three years, by making these changes.

Background

The ASCS is the USDA agency that is responsible for administering specific commodity and land-use programs designed for voluntary production adjustment, resource protection, and price, market, and farm income stabilization. ASCS delivers these programs to farmers at the local level through 2,838 local offices, nearly 1 office for each agriculture county in the nation. All programs administered by ASCS that deal directly with farmers are carried out through state, county, and community committees. There are 51 state committees, approximately 3,052 county committees, and approximately 13,400 community committees. Each county office is headed by a county executive director (CED) and staffed with employees to perform the day-to-day activities of the county office and report to the ASCS county committee. The ASCS county committee (COC) consists of three members -- a chairman, a vice-chairman, and a regular member -- plus two alternates. Members generally serve a three-year term. The COC meets regularly (usually twice per month) to guide the CED and carry out the ASCS programs in the county.

Community committees (CMC) are organized in some counties and serve smaller administrative areas. CMCs were established several decades ago when rural travel was more difficult and communication systems were not well established. It was felt that a smaller administrative area needed to be represented by someone who could travel and meet directly with farmers to explain the various programs offered by ASCS. At present, with improved transportation systems and modern communications, the only function performed by the CMCs is to hold an annual convention to elect the COC.

Today, each agricultural county has the option of being a one-community county or a multicommunity county. Approximately 25 percent or 697 counties in the United States are one-community counties. Six states have all one-community counties.

Methodology

The method used in pursuing this issue was to review the budgets, operating manuals, and other guidelines for handling community and county elections within ASCS. In addition, we conducted several interviews with ASCS personnel in Washington, at both the state and county levels. We visited Champaign County, Illinois, and Cherokee and Crawford Counties, Kansas. We visited with CEDs, county office staff, and some COC members. ASCS provided data on costs.

Findings

Under current procedures the process of conducting CMC and COC elections is a time-consuming and costly process. Although this varies from year to year, ASCS reports that the FY 1981 cost was \$8.78 million. This required 109,124 normal workdays which represented more than 3.3 percent of total normal workdays for all ASCS county office operations in FY 1981, according to the detailed Work Measurement System used by county offices to monitor productivity and staffing requirements. ASCS recognizes the need for additional economy in this aspect of county office operations and is considering proposals for changing county elections.

According to ASCS, the total per diem compensation cost for CMC members in FY 1981 was \$1.72 million (excluding travel). The communication function that was originally conceived for CMC members is no longer being performed. The county office sends regular newsletters (usually monthly) to farmers and program participants which keep them well informed. It is difficult to get farmers to agree to become candidates for the CMCs. Sometimes considerable time is spent persuading farmers to run for a CMC seat.

In FY 1981, there were 5.39 million voters eligible for COC elections. ASCS reports that only 25 percent of the eligible voters actually cast votes.

Under current election procedures, elections are held annually. Candidates are nominated by petition, and the

election is held by mailed ballot. Elections are usually held the first Monday in December, and those elected take office on January 1 each year. For multicommunity counties, the nomination and election process begins earlier so that sufficient time is available to hold the convention in which the CMC members elect the COC members.

ASCS currently has more than 300 pages of instructions, guidelines and amendments (eleven amendments alone between 1979 and 1981) which govern the procedures for holding CMC and COC elections.

Some of the COC members we interviewed who had recently shifted from multicommunity to one-community election procedures reported that the election was simplified greatly, and farmers had no complaints about the change. Many farmers and program participants were not even aware that in multicommunity counties they were not directly electing the COC members.

Conclusions

The CMC election system is outdated and expensive. Farmers and program participants can receive fair representation at less cost from direct election of COC members. CMCs should be changed to noncompensated status or eliminated.

Conducting elections in one-third of the county each year will allow adequate representation and renewal of COC membership and will significantly reduce costs.

The election date should be changed to allow farmers to vote when they are in the ASCS office to sign up for programs or to certify acreage. This may imply the need to change the effective date on which the newly elected COC members take office. Eligible voters who do not intend to sign up or certify acreage, or who cannot personally visit the county office, should have the option to request a mail-in ballot. This option should be offered through the regular county office newsletter to reduce mailing costs. This should increase voter turnout.

The chairmanship of the COC should be changed each year. The senior member of the committee (i.e., the member beginning the third year of his or her 3-year term) should be the Chairperson. The second senior member of the committee (i.e., the member beginning the second year of his or her 3-year term) should be the Vice-Chairperson, and the newly elected member of the committee each year should be the regular member. Alternates should be selected from each annual

election and should be the candidates receiving the second and third largest number of votes.

The operational procedures (15-A0 "County and Community Elections") should be rewritten to encompass these improvements and to simplify the guidelines for COC elections.

Recommendations

AG 40-1: The Secretary of Agriculture should seek legislative authority to change ASCS COC elections. Elections should be by direct ballot, either walk-in or mailed. Each county should be divided into three administrative districts, and an election should be held in each district once every third year. One COC member should be elected annually along with two alternates. Elections of officers should be conducted so as to allow a rotation of the chairmanship.

AG 40-2: The ASCS Administrator should issue new operational procedures for conducting COC elections by walk-in secret ballot as soon as the legislation is passed. Upon receipt of new operational procedures, the COCs should inform program participants of changes in election procedures via monthly newsletters. The COC leadership positions should be clearly defined in the new operational procedures. The County Executive Director should organize work methods to efficiently handle election procedures under the new arrangement.

Savings and Impact Analysis

On the basis of our recommendations, we estimate the following cost savings:

- * Elimination of CMC compensation: \$1.7 million annually (based upon FY 1982 budgeted compensation costs).
- * Election held for only one-third of the county each year: \$4.96 million annually (two-thirds of \$7.43, million estimated FY 1982 personnel costs).
- * Reschedule election to allow walk-in secret ballot voting. \$1.19 million (80% of \$1.49 million, estimated costs of postage, ballots, and forms).

Total estimated annual savings beginning in FY 1984 are \$7.8 million. These recommendations should have the added effect of improving voter turnout.

Implementation

AG 40-1 requires statutory change by Congress, and a legislative proposal should be forwarded as soon as possible. It is hoped that this will be passed early in the 98th Congress and can be implemented by FY 1984.

AG 40-2 can be accomplished through existing authority of the Agency head. New procedures can be drafted concurrently with the legislation so that little time is lost in implementing them at the state and local levels.

F. FOREST SERVICE (FS)

Overview

The Forest Service (FS) has 190 million acres with over 42,000 employees, but it posts losses of \$1 billion per year.

The FS currently has over \$6 billion of uncut volume under contract. Delay in the harvest of this volume has caused substantial economic loss to the Federal Government. Because timber purchasers operate on a "pay as you cut" basis, the timing of timber sale receipts is largely a function of their harvest decisions.

In the National Forest Service (NFS) Regions, Forests, and Ranger Districts (which account for most FS staffing) about 10 percent of all personnel are employed in the engineering function, another 10 percent in specialized scientific and technical functions related to planning and the FS's multiple-use concept, and an estimated 12 to 15 percent in administrative functions. Thus, well over 30 percent of the FS's total direct personnel budget of \$916 million consists of indirect or overhead costs.

The FS maintains some 900 field locations throughout the country, many of them located in the same cities or commuting areas as other FS offices. Congressional appropriations language prohibits the moving of FS offices or adjustment of regional boundaries.

The FS provides a substantial amount of recreation to the public. In 1981, close to 230 million visitor-day equivalents were provided. A visitor-day equivalent is equal to 1 person spending 12 hours at a recreation site (or 12 people for 1 hour, or any combination). In the same year, the FS collected \$19.4 million from recreation related activities. This amount of revenue is equal to just under eight cents collected for every visitor-day. The majority of this revenue came from two major sources: user fees and special and use permits.

The NFS grazing program encompasses 102 million acres of land in 36 states. There are approximately 10,750 grazing allotments on which 16,100 ranchers are authorized to graze 1.9 million cattle and 1.7 million sheep. Revenue collected

by the FS in 1981 was \$14.9 million. The program costs were just over \$41 million, creating a program deficit of \$26 million. On a per-acre basis, revenue of 14 cents was generated, compared with 40 cents per acre in cost to manage the program. Most of the ranchers who use this land are small operators; 84 percent have base herds of up to 300 head. According to the 1983 Budget Explanatory Notes, most are highly dependent on FS lands; without the use of these lands, few would be economically sound livestock operations.

AG-41: Improve Timber Sales Cash Management

Issue and Savings

A flat payment schedule should be implemented in contracting for timber sales. While the total Government receipts from each timber-sales contract will not change, accelerating the receipt of these amounts by our proposal will save \$460 million over three years.

Background

The Forest Service (FS) currently has over \$6 billion of uncut timber under contract. Delay in the harvest of this timber has caused substantial economic loss to the Federal Government. Because timber purchasers operate on a "pay as you cut" basis, the timing of timber sale receipts is largely a function of their harvest decisions. A FS report outlining new sale provisions pointed out that a six-month delay in the harvest of this timber would cost the Government over \$300 million. Later in the report, there was a discussion about maximizing receipts by accelerating the cash flow to the U.S. Treasury, thus increasing the net present value. The FS understands the very real "time value of money." Until recently, very little was done that would translate this knowledge into income.

Using any measurement criterion, the FS is a major operation. With over 40,000 employees and annual sales over \$1 billion, it compares with many large corporations. The majority of its revenue comes from timber sales, and for many years the methods of selling this timber were unchanged. To purchase timber, all a buyer had to do in addition to winning the bid was produce a performance bond covering the partial price of the sale. The purchaser also had to make various bid guarantees but, in essence, it cost very little to hold a Government timber contract.

During the past several years there has been a tremendous amount of turmoil in the timber industry. Speculation on future lumber prices in the West has created a situation in which, under current prices, harvest of this timber may

be highly unprofitable. To dampen the speculation trend, the FS recently changed some of the provisions in its timber-sale process. These provisions require timber purchasers to put more money up front and encourage an earlier timber harvest. The key changes in the new rules are the following:

- * A 5 percent deposit of bid price within ten days of sale.
- * An increase in the maximum performance bond from \$200,000 to \$500,000.
- * A requirement that 25 percent of the sale value be paid by the midpoint of the sale.
- * In region 6, (Washington and Oregon), discounts for early removal.
- * A stumpage-rate adjustment provided for region 6.

This certainly appears to be a movement in the right direction. In the past, and under most contracts outstanding, FS timber managers pointed out that most of the harvest and, therefore, the cash collections are done in the final cutting season of the contract. Due to the traditionally low cost to hold a timber contract, time was a cheap commodity, and the contract was a very cheap way to leverage earnings. According to the Federal Register, the average length of timber contracts was from three to three and a half years excluding extensions. It was typical under these contracts that the harvest would occur in the third year. This created very skewed cash flow behavior toward the end of the contract term; on the average the full amount was received in the last year.

Methodology

Interviews with the timber managers were a very important part of this examination. Much of the information used was provided by professional judgment coupled with some data. Due to a lack of exact FS information on cash flow, sound business practice had to be used.

Current financial theories and practice were used to develop our recommendation. Cash flow modeling and the concept of the "time value of money" were the primary tools used.

Some of the assumptions used in our study were the following:

- * The average length of contracts including extensions, is four years. Without extensions the average is three and a half years, but there have been two blanket extensions in the last decade that raise this to a four-year average.
- * Road credits as a percentage of sales are, on the average, 15 percent. This has held true for the past three years.
- * On most occasions, harvest will be delayed as long as possible within the rules of the contract.
- * The sale midpoint, on the average, is closer to 75 percent of contract length than to 50 percent. This is due to the road building provision and the last day of the midpoint operating season rule in the determination of the midpoint.

Findings

The FS has every reason to be concerned about the level of contracts for uncut timber. Since 1972, timber sales have been well above timber harvests. Every year since 1972, the Government has had an additional layer of contracts to hold. Timber sales have been rising much faster than the receipts to the Treasury and the larger the gap gets, the more expensive it is for the Government to hold these contracts. The FS is spending dollars today to prepare and sell these contracts. The receipts simply do not keep up with the expenditures. If the FS were a business, it would have to borrow money to continue operations and the borrowing charges would be the cost of holding all these contracts. The Government is currently financing the deficit on which the FS is operating.

A prudent business decision would be to attempt to close this "financing gap" or at least keep it where it is. To achieve this, an acceleration of receipts would have to occur. This goes along exactly with FS wishes, and it would also create several other favorable results. Firms would harvest earlier, in an attempt to recoup their investment. This would tend to shorten contract length. Most important, it would reduce speculation by increasing up-front costs and reducing the free leverage. With \$1 million, assuming a 5 percent deposit, a firm can tie up \$20 million in contracts. The potential gain on \$1 million is clear if a 10 percent price appreciation takes place. A firm would double the money it has invested.

All these effects stated above are in line with FS policy. In looking at the current estimate receipt profile,

it is again assumed that firms will delay harvest as long as possible under the contract provisions. While this is an estimate, no FS personnel took exception to its implications.

Conclusions

It seems that considerable savings could be achieved if a flat payment schedule were used. If such a system would be a hardship for small firms, the Government could deviate from policy when it deems this appropriate. This would be preferable to the Forest Service continuing its subsidization of all timber purchasers; the Task Force is aware, however, that with the current economic climate for the lumber industry, this is not the best time to advise a more rigid payment schedule.

Recommendation

AG 41: The timber management should implement a flat payment schedule first in those areas where market conditions permit a realistic test, and then extend it to other areas which such modifications as the test results may indicate.

Savings and Impact Analysis

The savings from this recommendation are generated only by the acceleration of Government receipts (i.e., total receipts do not change) and consequent reduction in debt that would otherwise be needed to finance Government outlays. Since the actual difference in receipts under our proposal and under the current "pay as you cut" basis will vary from year to year, and since the time value of money is the only source of savings, we have used the present-value concept to calculate savings. At an assumed 10 percent interest rate, the present values of future savings are as follows:

- * For the 1983 contracts, at an assumed sales volume (net of road construction allowances) of \$1.5 billion; the savings over the 1983-1986 contract life, discounted back to 1983 at 10 percent, would be \$145.9 million.
- * For the 1984 contracts, at an assumed sales volume (net of road construction allowances) of \$1.575 billion; the savings over the 1984-1987 contract life, discounted back to 1984 at 10 percent, would be \$153.2 million.

- * For the 1985 contracts, at an assumed sales volume (net of road construction allowances) of \$1.650 billion; the savings over the 1985-1988 contract life, discounted back to 1985 at 10 percent, would be \$160.8 million.

Implementation

Research on the program should be started immediately in the Timber Management Division. This can be done at the suggestion of the Division Chief.

When a program is developed, it should be tested in a particular location for a period of time.

When the market begins moving up, the program should be ready for implementation throughout the Agency.

AG 42: Improve Timber Appraisal Methods

Issue and Savings

The appraisal process for bidding should be changed to use the "transaction evidence" approach. This change would increase revenue by \$30 million annually, or \$99 million over three years.

Background

The Timber Management Department of the Forest Service (FS) sells timber on a bid basis to private timber firms. Before timber is offered for auction, a formal appraisal process is used to establish a minimum selling price. According to FS regulations, the objective is to establish the timber's fair market value. This procedure was designed to ensure that the Government would receive a competitive price for the product.

The current appraisal process, in its basic form, has been used by the FS for several decades. Its theoretical basis is the "residual value" process. Residual value appraisals are based on the proposition that standing timber is worth the selling value of the final product manufactured from it, less the cost of production and the profit margin. All these values are estimated by means of a fairly complex method. Certain assumptions are used in the process:

- * Estimation of the costs of production assumes an average-size operator of average efficiency.
- * Prices and costs will be gathered from historical market information.

- * The profit margin allowed will be 14.5 percent.

In two regions (regions 8 and 9) the FS uses transaction evidence to appraise the timber. This method suggests that the best indicator of the value of plot X is what plot Y, a similar tract of land, recently sold for. The FS states that this is an appropriate method in these two regions, where second growth timber is predominant. They state that, in the areas with old growth timber, the quality of the timber and the bidder defects are so variable that transaction evidence would be too risky. The second growth stands, on the other hand, are quite homogeneous with respect to quality and defects. The FS feels that, after much of the old growth timber is harvested, a move to transaction evidence appraisals in these areas (the Pacific Northwest) would be appropriate.

In 1981, 471 sales with a volume of 731,500,000 board feet and a value of \$21 million were sold at the appraised price. This equals an average selling price of \$28.22 per thousand board feet. In sales of less than \$2,000 (most of which typically sell at the appraised price), 786 million board feet were sold for a total of \$13.3 million, or \$16.92 per thousand board feet. If 80 percent of these small sales are made at the appraised price, then a total of about \$30 million worth of timber was sold at appraised prices in 1981.

In response to studies advising the FS that its appraisals do not reflect fair market value, it has responded:

The Forest Service appraisal system is designed to determine stumpage values for an operator of average efficiency at the time that the tract of timber is advertised. The determination is based on costs and prices recently experienced by a cross section of timber purchasers. The resulting advertised rates are analogous to a "spot" price. Timber purchasers decide at the time of bidding how much the timber is worth to them at the time that they are going to cut it. Purchasers are under a compulsion to buy Forest Service timber for a number of reasons, but mainly their own conditions of supply, manufacturing efficiency, marketing abilities, and demand dictate whether or not to buy and how much to pay. Many purchasers, especially in the Pacific Northwest, are almost totally dependent on government timber to supply their manufacturing facilities. Their perception of a diminishing supply of government timber has caused some unusually high (speculative) bidding. This has occurred over the last several years because purchasers have been unsure of where the Forest Service planning process would leave them vis-a-vis the timber

supply. Of course, the anticipation that the inflationary trend would continue has been an important factor influencing bidding. If all conditions remained constant, i.e., costs, prices, supply, demand, etc., then the advertised rate would remain valid for a period downstream.

In this Task Force's opinion, basing an appraisal on the expectation that all the above conditions will remain constant over a period of time is not realistic in today's environment.

Methodology

Interviews were arranged with key FS personnel.

One Task Force member visited a National Forest and went through the appraisal and sale procedure on site. A considerable amount of information was also gained from reports by outsiders.

An assumption inherent in this analysis is that if competitive areas consistently value timber above the FS appraisal, using the same method of appraisal elsewhere will produce appraisals that will be just as faulty in determining a competitive fair market value.

Findings

In areas that have competition, the FS appraisal process does not come close to the fair market value. In most cases the appraised price is less than half of the selling price. If one looks at the peaks and dips, the appraisal process seems to track the selling prices, but it does this at about half of the selling price.

In the last several years most regions have had very high bid-to-appraisal ratios. In region 2, for example, timber usually sold at from 1.1 to 1.5 times the appraised value until 1981. At that time, it jumped over 5 times the appraised value, and FS personnel said a new mill (operated by Pope and Talbott) drove up prices in this typically non-competitive area. This is a perfect example of how competition increases prices paid over the appraised rate. But competition does not always exist on sales of National Forest timber. Some areas of National Forest timber do not have enough volume for several mills. Start-up costs are very high, and challenging a strong, well-established mill in a low-volume or small market area is too risky for most operators, which is why they buy their timber relatively cheap.

For this reason, noncompetitive areas continue to exist. The low-bid appraisal regions are generally the less competitive. An exception is regions 8 and 9, which are fairly competitive areas. Since transaction evidence is used, the appraised price will be much closer to the bid price, and the resulting ratios will be lower. Once again, where competition is working the appraisal becomes a moot point. It is in those noncompetitive areas that a good appraisal becomes necessary.

Conclusions

One can be reasonably sure that timber purchasers will bid no higher than the price they consider will yield them an adequate profit margin. That is, the bid price represents an acceptable cost of goods sold to the buyer, and the bid price, therefore, represents a fair market value for the timber. Thus, if purchaser A in a competitive area finds a price twice the appraised value to be a fair market value, then purchaser B in a noncompetitive areas should, other things being equal, also find a price twice the appraised value to be a fair market value. Seldom do such ideal equations apply in all instances in the real world and, in the noncompetitive area, the purchaser may need, or feel he has the leverage to obtain, a lower timber price than might apply when there are competitive purchasers. A 100 percent variance between appraised value and competitive fair market value would, however, appear to be more leverage for the purchaser than is justified by, say, differences in the purchasers' cost structures. In essence, the FS is subsidizing the private purchaser who lacks competition.

Recognizing that interregion transaction evidence for appraising similar assets will not always precisely establish a fair market price (i.e., one that a given purchaser will be willing to pay), the FS should, nevertheless, take steps to ensure that the taxpayer is not subsidizing the profits of purchasers in noncompetitive areas.

Recommendation

AG 42: Timber management should gather more information on how much timber is sold at various levels above the appraised price and look into areas where competition is lacking. Where the same species is sold, as in competitive areas, some kind of interregion transaction evidence could be used. Also, since the current appraisal method tracks well, the FS could incorporate the time value of money into the contract and get a fairly close estimate. This should be done gradually over a period of several years. A key point is that the FS should not try to guess the exact price

but capture 75 percent of it, rather than the current 50 percent.

Savings and Impact Analysis

If the \$30 million of timber sold at appraised values in 1981 had been sold at the competitive fair market value (i.e., twice the appraised value), an additional \$30 million in revenue would have been generated. It may be optimistic to expect that full competitive fair market values can be obtained in all noncompetitive areas. Offsetting this overoptimism, however, is the increase in sales prices that should be obtainable where previous sales were only slightly above appraised values, an improvement not included in the \$30 million estimate. Potential additional revenues in this area of 1.1 to, say, 1.3 bid-to-appraisal ratios are not known, but should at least be sufficient to ensure achieving the \$30 million revenue enhancement estimate.

Implementation

Through the existing authority of the Chief of the FS, a change in the appraisal technique could be instituted. This should first be done in the noncompetitive areas. Therefore, information should be gathered by timber management concerning sales at or near current appraisals. Then, on a test basis, the FS should use interrregional information or incorporate some additional factors into the appraisal. At the earliest possible time, the Chief should start a study to make FS appraisals more accurate.

AG 43: Adopt Lump-Sum Timber Sales Procedures

Issue and Savings

The Forest Service (FS) should adopt lump-sum timber sales procedures. Revenues would increase by \$16 million annually and \$54 million over three years.

Background

The FS has been selling timber for more than 40 years. The majority of the timber is sold from the national forests in the West, although nearly one-sixth comes from the South and East. The total volume of timber sold increased steadily until the early 1960s. The sales volume then leveled and began dropping after a peak in 1970. In 1978, the trend was reversed again, and there is currently strong support for additional increases in the volume of timber sales.

In preparing for a timber sale, the FS develops a timber appraisal. This requires a cruise of the timber to estimate

the volume and quality and calculation of the residual price, is the minimum price for sales. In the West, logs are measured as they are removed from the site and the purchaser pays the bid price for that type of timber harvested. In the South and East, the purchaser pays the total bid value rather than paying for the volume and type removed.

Methodology

Several sources were used to examine the timber sale process. Much information was obtained through discussions with personnel in timber management in the Washington office of the FS and personnel on the Willamette National Forest, headquartered in Eugene, Oregon. The Willamette was chosen for a visit because it is the forest with the largest timber sales volume.

Data on timber sales were collected on the Willamette National Forest and on all large sales (over 10 million board feet) in Washington and Oregon. Only sales closed in FY 1981 were included, so that appraised volumes and prices could be compared with scaled volumes and actual revenues.

Findings

One significant finding is that FS volume estimates on large timber sales in region 6 (Washington and Oregon) are highly inaccurate. On the 94 sales of over 10 million board feet (MBF) that were closed in 1981, the sum of volume estimates was only 1.8 percent larger than the total volume removed. However, the average error was nearly 15 percent. This suggests that, while there is no consistent bias for overestimating or underestimating the sale volume, there is a great deal of error involved.

Similar results are found when each of the 19 national forests in region 6 is examined, except for the Willamette National Forest. The estimated volume was 16.9 percent more than the total removals for the eighteen large sales closed in 1981 in Willamette. The revenues, as a result, were nearly \$12 million below expectations.

Many of the bidders for national forest timber do at least some timber cruising on proposed sales. Their estimates are generally more accurate than the FS estimates. This additional knowledge of the species, volume, and quality of timber being sold allows purchasers to develop a sales strategy. One of the salvage sales from Mount St. Helens (sale #88) provides a superb example. Much of the hemlock in the area had a negative appraised value. This is brought up to the minimum allowable bid of \$2 per MBF by reducing the appraised value on the Douglas-fir. The win-

ning bid on sale #88 was for Douglas-fir at \$3 per MBF and hemlock at \$260 per MBF, despite the fact that Douglas-fir is the high-value species. The purchaser can afford the extreme overbid on the hemlock if he or she knows that the Forest Service volume estimate is too high. This is likely because of the rapid deterioration of hemlock killed by the eruption of Mount St. Helens. When the purchaser has better knowledge of the sale than the FS has, the FS revenues will be below expected receipts.

Another important finding is the inaccuracy in scaling the timber removals. Over half of FS timber harvests are scaled by independent third parties. However, the independence of these organizations has been questioned. Most were formed by coalitions of timber purchasers, and they are paid by the timber purchasers. FS check scalers on the Willamette National Forest stated that there is a consistent bias of 1-2 percent against the Government.

A third significant finding is that the FS monitoring of timber harvesting is inadequate. The FS does some check scaling of third-party scalers, but the system for checking provides neither random checking of all scalers nor adequate coverage, according to the Office of the Inspector General.

Conclusions

The current FS method of selling timber based on estimated volume and being paid only for the actual removals leads to great variability between expected receipts and actual revenues. There is no allegation of fraud, or even a consistent bias, but the potential exists because of inadequate monitoring and inaccurate volume estimates. On the Willamette National Forest, receipts were \$12 million less than expected revenues for large timber sales closed in 1981. Further investigation is needed to determine whether 1981 was an aberration or whether there is a consistent pattern of revenue shortfall.

The most reasonable solution to the problems illustrated is to require purchasers to pay what is bid, rather than paying for what is removed. This system, called lump-sum sales, is currently being used by the Bureau of Land Management in Oregon and by the FS in the southern and eastern regions.

Recommendation

AG 43: The FS ought to adopt a lump-sum sales system as soon as possible and should change all timber measurement to a cubic system.

Savings and Impact Analysis

There are several benefits to the Government in adopting a lump-sum sales system. One benefit is a consistency and foreknowledge concerning timber sale revenues. While this will not necessarily increase revenues directly, it does provide the opportunity for managing cash flow and for estimating the value of the credit terms of the sales.

Another benefit to the Government is the elimination of the expenses associated with scaling timber. Where the FS does the scaling, this is a reduction in direct expenditures. For third-party scaling, the purchaser usually pays through a deposit held by the FS.

1. Benefits to the Government

- * Payment by purchasers of the full bid value of timber on the Willamette National Forest in 1981 (estimated at \$12 million)
- * Elimination of scaling costs
- * Elimination of alleged third-party scaling bias (estimates at \$4 million per year)
- * Elimination of utilization monitoring
- * Reductions in reforestation costs
- * Reductions in fuel management and fire protection costs
- * Increased receipts from prosecution of timber trespassers

2. Costs to the Government

- * Increased cruising costs estimated at less than the scaling savings noted above
- * Increased monitoring for timber trespassing estimated to be less than the savings from elimination of utilization monitoring noted above.

Implementation

All timber measurements should be converted to cubic feet in FY 1984. The Chief of the FS has the authority to do so immediately. In fact, some forests and some regions already have converted. The change should occur as soon as

possible to get to a consistent procedure throughout the National Forest System (NFS).

The FS should also begin a training program to improve its cruising ability. This will require better salaries and more people, but a forest can be shifted to the lump-sum system immediately upon completion of the training. Thus, check scalers can and should be retrained for this task. Again, this can be implemented immediately by the Chief of the FS under existing statutory authority. The NFS should be shifted gradually over a three- to five-year period, to allow completion of training.

AG 44: Revise Recreation Fees

Issue and Savings

To obtain over \$38 million in additional annual recreation revenues, \$125 million over three years, the Forest Service (FS) should (1) revise requirements for user fees at recreation sites, (2) provide for extended access permits, (3) use volunteer workers to collect fees, (4) change the structure and formula for ski resort permit fees, (5) raise the charges for recreation homes, and (6) create better data collection systems for recreation fees.

Background, Findings, and Conclusions

The FS provides a substantial amount of recreation to the public. In 1981, close to 230 million visitor-day equivalents were provided. A visitor-day equivalent is equal to one person spending 12 hours at a recreation site (or 12 people for 1 hour, or any combination). In the same year, the FS collected \$19.4 million from recreation-related activities. This amount of revenue is equal to just under eight cents collected for every visitor-day. The majority of this revenue came from two major sources, user fees and special land use permits.

At the same time, funding for recreation was budgeted at \$117,000,000 in 1983, or 50 cents a visitor-day. In looking at the recreation program of the FS, we focused on five areas:

- * User fees and access permits
- * Ski resort land permits
- * Recreation residence permits
- * Volunteer worker programs

* Information on and control of fee collection

1. User Fees and Access Permits

The basis for the user-fee system is the Land and Water Conservation Fund Act of 1964. This states that user fees shall be charged for sites, facilities, equipment, or other services that meet certain criteria. Three general types of fees can be charged under this law: (1) admission fees, (2) recreation fees, and (3) permit fees. At the present time, no FS sites charge admission fees.

Recently, a bill was proposed to change the user-fee law, but it failed to pass. The bill would have tightened user fee criteria for user fees and required people to pay for permits to use National Forest lands. As it currently stands, only 2,000 of the 5,000 camping and marine sites charge user fees, because they have improved facilities which permit charges under the system.

The current fee system limits the areas for which fees can be charged. With 230 million visitor-days generating only \$19,400,000, the Forest Service is "selling" visitor-days for less than eight cents per day. Many areas which are costly to operate are unable to charge any fees to users. In the 1980 Federal Recreation Report, this point is dramatically demonstrated by the fact that eight times as many visitor-hours are spent at nonfee areas as at areas that charge fees. If only a modest user fee or admission fee were charged for these millions of visitor-days, substantial revenue could be generated.

In looking at the system from a private sector perspective, recreation is a real bargain. It is only reasonable that at least some of the costs of providing and maintaining recreation sites should be borne by the people who use them. Under the current system, a person can camp, swim, and do many other things for weeks at sites that are costly to operate, and if the site does not have all the necessary facilities required for charging a fee, no revenue will be collected.

2. Ski Resort Land Permits

Many Western ski resorts are on FS land. The mountains people ski on are almost always Federal land, and many times even the areas at the base of the mountain are owned by the public. Almost all of the big-name resorts (i.e., Aspen, Vail, and many others) are included. These resorts have special exclusive-use permits and pay fees on these permits annually. The fee is based on "graduated-rate fee system." This fee system applies to the concession revenue or to the

revenue received on fees collected from providing goods and services to the public. This equates to the ski resort's gross sales revenue. The system operates by applying a selected rate from a schedule to the resort's gross sales. The rate or rates to be used are determined by the proportioned relationship between the resort's sales and its gross fixed assets (GFA). As sales increase in relation to the GFA, a higher rate is applied to the higher increment of sales and the total fee increases. Conversely, if sales decrease in relation to the GFA, the fee is lowered. On the average this amounts to about a 2 percent charge against sales for the various ski operations. For example, in 1978, the Vail ski resort had revenues of \$15,472,000 and paid \$354,000, or 2.29 percent of sales to the FS. Total for 1978 were:

Gross sales at all ski resorts \$218,000,000

Fees received \$4,500,000

Approximate percentage = 2%

In general, FS revenue in this area depends on what the resorts' sales and how much they reinvest in fixed assets, not on a flat lease rate with payments reflecting the fair market value of the right to use the land.

A study done by the FS, "A Case For Equity," pointed out some interesting information. It concluded that the Government and businesses on private land in competition with permittees on Federal land were charging less than permitted. Fees charged for private ski land tended to be higher than for FS land. Median return for FS resorts was 20 percent higher than for non-FS resorts. After-tax profit was almost double: 7 percent on sales to 4 percent for private land owners. Fees charged by Park Canada were usually more than double the FS fees, or 6.4 percent of sales. Looking at the ski resorts themselves clearly shows an imbalance in the risk-return relationship. According to this same study, many of resorts are earning a phenomenal 40+ percent return on assets.

It appears that the revenue of \$5 million collected in 1981 is less than what should have been charged. This figure yields an average of \$30,000 in fees for the 165 ski areas on Federal land. Considering that most large ski resorts are on this land and that their sales are close to \$0.33 billion dollars, \$5 million in fees seems quite small. If the FS simply charged what the Canadians do, revenue would double. This would add over \$5 million in revenue to the Treasury.

3. Recreation Resident Permits

The FS has the authority to grant permits to private citizens to build recreation homes on FS land. These homes vary from cabins to very elaborate summer homes. There are about 16,000 permits now issued for these homes. Most of these were issued years ago, before public sentiment made them unpopular. The FS stopped issuing these permits except in special cases. However, prior permit holders can continue to use them.

The fees charged are based on a percentage (5%) of the appraised value of the land. Total revenue of about \$5 million annually from these fees averaged around \$300 per year per home. The average appraised value is around \$6,000 per lot. The appraisals are done every five years, and then new charges are established, but no interim fees are set.

With the cost of money (prime rate) around 12 percent and mortgage rates somewhat higher, this 5 percent of appraised value seems extremely low. When this rate was established 15 years ago, the cost of money was very low, 4-5 percent. Today one cannot envision getting a 5 percent return on similar land deals. When a person can get a riskless rate of return of 10 percent through Government securities, a prudent investor would demand more than that for a piece of land. Another problem is the five-year reappraisal period. With land values rising annually, a value held for five years creates a costly time lag. The combination of the above two factors creates a submarket value realization by the FS. It appears that, if the rate were increased from 5 percent and the appraised value were indexed for the inbetween period, revenue could at least be doubled.

4. Volunteer Workers Program

From our study of the recreation area, we feel that a couple of other points should be made that could have an effect on revenue.

The FS has a very active volunteer program. Last year the equivalent of more than 700 full-time positions was donated.

A key area in which these volunteers could be used but are not now used is fee collection. At the present time, the Comptroller General is considering this FS request. The director of recreation feels that, due to personnel shortages, up to 20 percent of the potential fees are not collected. Currently, this could amount to over \$2 million.

If adequate controls are used (bonding, etc.), we feel this would be a good idea. The costs would certainly be much less than the potential benefits and it would allow volunteers to make use of recreation facilities while performing a useful service.

5. Information on and Control of Fee Collection

Background and findings were not developed in this area but, under the circumstances, a recommendation is still appropriate.

Recommendations

AG 44-1: Seek change in the law that would revise the requirements for admission fees. Since eight times as many visitor-days are spent at non-fee-charging sites than at sites that charge fees, this proposed change could at least double the current revenue of \$8.5 million to \$17 million.

AG 44-2: In the same proposed amendment, the FS could seek some form of extended access permit. According to FS sources, the last bill proposal was flawed. It would have required a permit to enter FS land, for example. This was too rigid. This could be changed to require permits for persons who plan to spend extended time on the land, including campers, hikers, or others who are using the land for more than a short period of time.

AG 44-3: Increase both permit and recreation fees by at least 20 percent.

AG 44-4: Change the structure and formula for ski resort permit fees. Another method for basing fees should be found. Appraising the value of the land or "ski rights" to the land could be done, and a flat-rate rent based on this value could be instituted.

AG 44-5: Raise the 5 percent charge on recreation homes to a more current and equitable rate. The FS could base the rate on the appraisal values of local land, and the fees would increase with the appraisal of other land. A form of indexation could also be used between the appraisal dates, and this could be tied to any of the national indices.

AG 44-6: Create a better system for collecting data on recreation fees. The FS has volunteers for over 700 full-time equivalent positions. The Comptroller General is considering the FS request to use these volunteers.

Savings and Impact Analysis

Table II-17 indicates the effects on revenue if the Land and Conservation Fund Act were changed to encompass the above recommendations.

Table II-17
Effects of Revision of Recreation Fees

<u>Recommendation</u>	<u>Assuming Change In Law (\$)</u>	<u>Without Change in Law (\$)</u>
Extension of admission fee	\$ 8,500,000	\$ --
Establishment of extended access permit	15,000,000	--
20% user increase in permit fees	3,400,000	1,700,000
Raising ski resort permit fees	5,000,000	5,000,000
Raising recreation home fees	5,000,000	5,000,000
Better data collection	<u>1,700,000</u>	<u>1,000,000</u>
Total	\$38,600,000	\$12,700,000

Implementation

Another attempt should be made at changing the law so that admission fees can be charged and extended access permits can be issued. The staff should contact the other agencies that would be affected and coordinate their proposals.

The FS should proceed to develop a system for using volunteers as fee collectors and seek concurrence in this from the Comptroller General.

Recreation management should increase the rates charged in the ski resort fee system. This could be implemented over several years to give ample time for resorts to adjust. This can be done without any change in the law. Meanwhile, the fee system should be studied to look for a more equitable long-term alternative approach to secure additional Federal revenue.

Management should gradually raise the rate charged for recreation homes. An escalator clause could also be imposed

on the appraisal value at any time management saw fit. A change in the law would not be needed to implement these changes. The entire question of whether the lease system for recreation homes should be expanded in a manner to avoid public criticism should be examined.

Management should immediately list the information it would need to manage and compare the various fee sites. At the request of the Chief, this list could be explored, and the information could be gathered and sent back to management.

Additional Information

It should be noted that savings from increased recreation fees will also be reported by the cross-cutting PPSS User Charges Task Force.

AG 45: Increase Firewood Revenue

Issue and Savings

The Forest Service (FS) should charge for firewood that is currently given away. This would generate over \$20 million annually and \$66 million over three years.

Background

The firewood program is one of many areas of the timber program. Responsibility lies with the Forest Supervisor and his timber staff to carry out the directives sent down from the Chief. A separate budget line item does not exist, but the program is funded from timber program resources. Separate amounts or estimated costs do exist but are used for internal information; they will be outlined later.

Until 1973, only those persons living within or in close proximity to a National Forest could receive a permit to remove firewood from the particular forest without charge. Others who did not qualify under the above criteria had to buy the firewood as commercial purchasers, and prices varied. The current program was enacted in response to the energy crisis of 1973 and the awareness that the Nation faced a crisis in the supply of oil. The Chief of the FS at that time, John McGuire, felt that the FS could help the situation and, having the power to impose or remove fees, he opened up the forest for free firewood harvest. As long as one didn't harvest the wood for resale, the wood was free. This system still is in effect today, and interest and participation continues to increase. From 1972 to 1980, demand has increased by over 1,100 percent. In 1981, 902,000 per-

mittees removed from the 155 National Forests close to 4.2 million cords of wood (a cord equals 128 square feet) suitable for firewood. This will provide a heating equivalent of about 11 million barrels of fuel oil, or in money terms over \$300 million worth of oil (assuming a price of \$30 per barrel).

Another indication of the magnitude of this program is the fact that the total amount of firewood harvested in 1981 was equivalent to 24.5 percent of the total commercial timber harvest.

The cost of the firewood program according to FS figures in 1981 was \$5.2 million, excluding overhead. This amount is a rough estimate by a Washington staffperson and is based on the estimate that it costs the FS on the average about 55 percent as much to prepare and sell firewood as is realized from the typical commercial sale. This estimate excludes overhead but includes the various costs to monitor and prepare sales, along with related costs. The actual cost, including overhead, is not known but could very well be between \$6 and \$10 million. Eight percent of the 1981 firewood harvest was sold commercially (280,000 cords), and revenue amounted to \$787,000. This created a program deficit of at least \$5 million and possibly much more. That is, for every dollar spent on the firewood program, just over ten cents is generated as revenue.

Methodology

Much of the information was gained from interviews. One of our members visited the Willamette National Forest and gathered some on-site firewood information through observation and interviews. Comparative analysis concerning the competitive firewood market was also used to get an idea of firewood valuation.

Findings

The FS appears to have adequate controls in the firewood program. Some unauthorized cutting does take place but, considering the size of the forests along with the ease of public access, this is to be expected.

The procedures for issuing permits are well established. Of the 902,000 permittees who participated in 1981, 653,000 had written permits issued by the district ranger stations and the others had site-specific general public permits (usually advertised in local newspapers). At the present time, the FS is considering implementation of a nationwide firewood sale program. A general consensus was reached, but implementation has been postponed. Their proposed system

would give the forest supervisors the authority to determine the price per cord of firewood at a flat rate throughout the forest. In addition, volume limits could be used where the supply is limited. A minimum charge of \$10 would be used, but the total amount paid would depend on the number of cords sold at the predetermined price. For instance, if the flat rate were \$2 per cord and a person removed ten cords, he would owe \$20. But a person who only took two cords would still owe \$10. Since these would be commercial sales, the personal use-requirement would not be in effect. Harvesters could either sell or use the wood.

Under the present laws and regulations, the FS has the ability to charge for the removal of firewood through permit fees, by unit cost, or both.

Conclusions

It is our opinion that a fee program should be initiated as soon as administratively possible. Considering that, on several forests, firewood removal exceeds the annual timber harvest, the time has come to levy such charges. It would be very difficult to implement these charges based purely on a fair market value. For every sale costs would vary (i.e., travel, equipment, time), as would the quality of the wood itself. Therefore, a minimal charge seems to be the best alternative. Having different prices at the various forests, as the FS is contemplating, might possibly add to confusion, resulting in higher costs or lower revenues.

The George Washington Forest (eastern region) has a program in which firewood is sold on the bid basis. People have shown a willingness to buy wood at prices from \$15 to \$19 a cord. Therefore, a nationwide price of \$5 to \$7 a cord would still be a very good deal for both the Government and the public. In an interview, a FS official stated that a cord of wood is economical for him to cut up to \$25, implying a market value of \$25 for uncut wood.

The FS has estimated that its program could raise \$9 million the first year. Our proposed program, which would be easier to implement, could provide from \$20 million to \$25 million for the Treasury in this first year, while continuing to be a very good deal for the public.

Recommendations

AG 45-1: Charge a minimum of \$10 for a firewood permit.

AG 45-2: Charge an additional nominal fee of at least \$5 per cord.

Savings and Impact Analysis

Let us assume that 800,000 permits would be issued at \$10 each and that an average of four cords would be harvested per permit, with the first included in the permit fee and the remaining three paid for at the unit price. The resulting revenues are shown in Table II-18.

Table II-18
Calculation of Increases in Firewood Revenue

<u>Number of Cords</u>	<u>Calculation</u>	<u>Revenue at \$5/cord</u>	<u>Proposed Price (\$) \$7/cord</u>
800,000	x permit price	\$ 8,000,000	\$ 8,000,000
<u>2,400,000</u>	x cord price	<u>12,000,000</u>	<u>16,800,000</u>
3,200,000		\$20,000,000	\$24,800,000

Note that 800,000 is a conservative estimate for permits issued (in 1981, there were over 800,000). The total is also very conservative, since 4.2 million cords were harvested in 1981.

It is estimated that five cords of wood can heat a home for a good part of a winter.

Implementation

At the Chief's request, each forest should change from the free permit system to charging for each permit. The Washington, D.C., office should design the method for selling firewood by the cord. Anything from standard ticket stubs to punch cards would be appropriate. Since the procedures for issuing permits are already in place, only the price and method of collection must be determined. We feel this could be done more quickly and with less confusion if the Washington office develops a national program.

Additional Information

It should be noted that savings from increasing firewood revenue will also be reported by the cross-cutting PPSS User Charges Task Force.

AG 46: Increase Grazing Fees

Issue and Savings

Grazing fees should be increased. A change in the fee structure could generate an additional \$17 million annually or \$58 million over three years.

Background

The National Forest System grazing program encompasses 102 million acres of land in 36 states. There are approximately 10,750 grazing allotments under which 16,100 ranchers are authorized to graze 1.9 million cattle and 1.7 million sheep. Revenue collected by the FS in 1981 was \$14.9 million. The program costs were just over \$41 million, thus creating a program deficit of \$26,000,000. Revenue of 14 cents per acre was generated, compared with a cost of 40 cents per acre to manage the program. Most of the ranchers who use this land are small operators; 84 percent of them have base herds of up to 300 head. According to the 1983 Budget Explanatory Notes, most are highly dependent on FS lands; without the use of these lands, few would be economically sound livestock operations.

The amount of grazing output is measured in animal unit months (AUMs), the amount of forage a 1000-pound cow will eat in a month. Charges for grazing in both the public and private sector are based on this concept. In 1981, as well as in the previous two years, 8.8 million AUMs were grazed on FS land.

This is less than the amounts grazed on Bureau of Land Management (BLM) lands, since much of the FS land is strictly timber. The majority of grazing on Government land takes place in the 16 western states. Since 1978, the fee structure for these states has been set by law. Since then, both the BLM and the FS have computed their fees in these states according to the formula provided in the Public Rangelands Improvement Act of 1978. The other states, which constitute about 10 percent of total FS grazing land, are not included in this law. They base their fees on the same formula, but the inputs used are different and result in different fees charged. In general there are three areas that charge different fees: the 16 western states, the national grasslands, and the eastern region.

Methodology

Interviews were held with FS administrative personnel and with a representative of the National Cattlemen's Association. The following literature was helpful: 1977

study of fees for grazing livestock on Federal land, history of grazing fees, and grazing fee review and evaluation.

Findings

Under the current statute, which is in effect until 1985, the charges for grazing fees per AUM have been declining since 1980. The majority (89%) of the fees come from grazing in the 16 western states. Therefore, the effect on revenue of using this statutory AUM formula in those 16 states is very large.

While the formula is complex, there are two main components: (1) market prices received for beef and (2) the costs to operate. This formula, as designed, creates a fee system that is sensitive to the ranchers' cost of production and the price they receive for their beef. The formula is not based on the fair market value of the grazing rights; it is based on the ranchers' ability to pay. For example, if the price falls in the beef market or if operating costs rise, the fee will go down. If the industry is doing very well, prices will gradually rise (increases or decreases in the fee are limited to 25% in any one year). We were advised that this type of fee structure went against FS wishes. They wanted to continue the previous method of determining fees, based solely on comparable private rates. The main proponent of the current system, we were advised, is the National Cattlemen's Association which, to a large extent, represents the ranchers who operate on Federal land. Of the total national beef supply, about 5 percent is grazed on these Federal lands.

It is generally accepted that it is more expensive to graze cattle on Federal lands than on private lands. On private lands, many things are included at no out-of-pocket charge to the rancher grazing his or her cattle: (1) fences, (2) maintenance, (3) improvements, and (4) veterinary services.

At the same time, the rancher grazing on public lands is faced with higher costs in (1) lost animals, (2) herding, (3) moving livestock, and (4) travel to and from the site. This is true because public lands are not fenced, for example, as are private lands. These are a few of the items considered, but they constitute a large share of the difference between private and FS grazing rates.

In 1982, the private grazing rate was estimated at \$8.80 per AUM. The FS rate is \$1.86 per AUM based on the statutory formula. If the FS were using the formula in effect before 1978, the indexed rate would be \$2.97 per AUM.

The Federal revenue generated of 14 cents per acre, coupled with over 40 cents per acre in costs, clearly indicates that Federal grazing fees are too low. For the Government to break even on its costs of managing the grazing program, an increase in Federal fees of approximately \$3.00 per AUM would be required. A break-even operation, while it would cover operating costs, would still be nearly \$4.00 per AUM under private fees and would yield a zero return on the value of over 100 million acres of grazing land, conservatively estimated at \$1 billion.

Conclusions

It appears that this program could, if the right changes are made, be a break-even situation. After this point, the FS could concentrate its efforts on developing an actual return from this valuable asset. This could mean a restructuring of the land or possibly the sale of high-cost, low-revenue land. It also appears that an increase in fees will have to be instituted to achieve this result. In looking at the evidence, this does not appear unreasonable.

Recommendations

AG 46-1: The FS, in its current study of grazing fees, should develop enough solid evidence to rescind the law on fees, after which it should increase fees by at least \$2.00 per AUM. This represents a balance between the \$3.00 increase needed to break even and the \$1.11 needed to return to the previous (prior to 1978) fee structure. Achieving break-even operations as soon as market conditions permit should remain an objective.

AG 46-2: The FS should move in the direction of selling some of this land. A system could be devised that classifies lands on the basis of public interest. Key watershed lands could be kept, along with other important land for the recreation and safety of the public. Other lands suitable for grazing or other uses that only cost the Government money to maintain should be phased out over a period of time.

Savings and Impact Analysis

At an annual volume of 8,800,000 AUM, the current price of \$1.86 per AUM yields annual revenues of \$16,400,000. The proposed \$2.00 increase in price to \$3.86 would yield annual revenues of \$34,000,000, an increase of \$17,600,000. The proposed \$3.00 increase to \$4.86 would yield revenues of \$42,800,000 (the break-even point for the grazing program), an increase of \$26,400,000.

Implementation

At this time, without a change in the law, the FS can only hope to provide enough convincing evidence during its current study to change the fee structure in 1985.

Additional Information

It should be noted that savings from increasing grazing fees will also be reported by the cross-cutting PPSS User Charges Task Force.

AG 47: Reduce Road Program Expenditure

Issue and Savings

Decisions for expenditures in building and maintaining National Forest roads should be based on marginal analysis of the economics. An annual reduction of \$48 million in road construction costs and \$4 million in road maintenance costs could be obtained, or \$172 million over three years.

Background

The Forest Service (FS) builds and maintains roads in its efforts to provide timber, recreation, and other goods and services from the National Forests. Although roads are a support function, the \$290 million appropriated for road construction in 1981 was over 15 percent of the budget for the National Forest System. In addition, the FS allowed over \$190 million as credit for roads built by timber purchasers, (i.e., roads built by timber purchasers for credit against the purchase price). Because of road construction, timber revenues in 1981 were \$190 million below the actual sale value. Road maintenance costs in 1981 were nearly \$75 million, bringing the total cost of the road program to \$555 million, nearly one-quarter of the entire Forest Service budget. The magnitude of the road program makes detailed analysis necessary if cost-efficiency is to be improved in providing access to the National Forests.

Methodology

Several sources were used to examine the road program. Much information was obtained through discussions with personnel in national FS Administration and in Engineering in the Washington office of the Forest Service and on the Willamette National Forest, headquartered in Eugene, Oregon. Regional data on road construction and maintenance were identified for FY 1981 by personnel in the Washington office. In addition, the findings of the USDA Office of the Inspector General (OIG), reported in the Audit Report on

Forest Service Timber-Purchaser Road Construction (1982), were examined and applied nationally where appropriate.

Findings

One significant finding is that the road planning procedures used by the FS place a very low priority on economic considerations. Road planning is a part of the environmental assessment process, and the alternatives are compared in the environmental analysis report for a particular project. In comparing alternative roading plans in the Willamette National Forest, 12 factors are each assigned a value between zero and ten for each alternative; economics is but one factor. The selected alternative is the one with the highest sum for the 12 factors. Road costs may vary substantially without significantly affecting the economic rating. A road costing \$35,000 per mile may be rated a 7, whereas another alternative costing \$52,000 per mile (50% more) may have a rating of 6. This substantial cost difference would only change that sum by 1 point out of a possible 120 points (less than 1%). The importance of economic considerations is further diluted by summary questions concerning the size and seriousness of potential problems.

Similar problems appear to exist in the road maintenance program. There is little or no cost analysis or accountability. Maintenance costs by maintenance level are generally unavailable. Average maintenance costs per region varied from a low of \$102 per mile in region 2 (Colorado, Wyoming, and South Dakota) to \$351 per mile in region 5 (California), rising to \$657 per mile in Alaska. Part of the range in costs can be explained by variability in miles of road maintained at each of the five maintenance levels. Less than 1 percent of the roads in region 2 are maintained at the two highest levels, and over half are at the lowest maintenance level. In contrast, less than a third of the FS roads in California are at the lowest level, while nearly 8 percent are in the most expensive maintenance categories.

Conclusions

The FS could substantially reduce road construction costs by using marginal analysis in examining reconstruction needs and in identifying design standards, particularly surfacing requirements and road widths. Greater fiscal accountability would reduce excessive costs resulting from planning and design errors. There is a 95 percent chance, according to the OIG report, that construction costs could be reduced by at least 10 percent for roads built by timber purchasers. Because the planning process is the same for roads built with appropriated funds, the 10 percent savings is applicable both to contract-built roads as to purchaser-

built roads. The savings are estimated to be \$48 million annually. This is a low estimate compared with a study by the National Forest Products Association, whose analysis of three national forests showed that, on the basis of road costs in industrial forests, far more than 10 percent could be saved on construction costs. FS roads were at least five times as costly as roads built on private lands and roads built on Washington State land.

Road maintenance costs could be substantially reduced through an application of economics to maintenance standards. An informal memorandum from the Willamette National Forest states that there is a savings potential in managing the roads by maintenance levels. The extent of the road system that could be maintained at a lower level, through restricting access and planning for less traffic, has never been analyzed for cost-effectiveness. Examination of primary FS roads in Willamette showed higher quality than is currently found on public highways and city streets. If 10 percent of the road system could be dropped one maintenance level, the estimated savings are \$3.8 million, annually.

Recommendations

AG 47: The FS should use marginal economic analysis in examining road reconstruction needs, in identifying all aspects of road design, and in determining road maintenance requirements, and it should implement a system for making the engineers accountable for construction and maintenance costs.

Savings and Impact Analysis

Road construction costs are at least 10 percent higher than is necessary, according to the OIG. Table II-19, which is based on figures provided by FS officials in a 1981 report, summarizes the likely savings that result from using marginal analysis in road construction and holding the engineers accountable for cost estimates.

Implementing similar practices for road maintenance would also substantially reduce annual road costs. If we assume that economic analysis would cause at least 10 percent of the road system to be reduced one maintenance level, the savings would be \$3.8 million per year. Since level 5 is used only for paved roads, no reduction in maintenance level is included. However, some cost savings could probably result if the same maintenance standards used for other public roads were applied to paved FS roads. Table II-20 summarizes potential maintenance cost savings.

Table II-19
Savings in Road Program Costs

<u>Saving Type</u>	<u>Total Value (\$ millions)</u>	<u>10 Percent Savings (\$ millions)</u>
Purchaser road credits	\$189.6	\$18.96
Appropriated road funds	268.9	26.89
Opted purchaser roads <u>1/</u>	21.0	<u>2.10</u>
Total estimated savings		\$47.95

1/ "Opted" roads are those a timber purchaser has requested the FS to build; this option is only available to small businesses.

Table II-20
Savings Through Reduction in Maintenance Levels

	<u>Maintenance Level</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Annual maintenance cost per mile <u>1/</u>	\$75	\$150	\$450	\$1,000	\$1,100
Total miles	98,323	85,734	73,112	16,952	3,941
10% reduction in miles maintained		8,573	7,311	1,695	
Savings per mile through reduction by one level		75	300	550	
Estimated savings (thousands)		643	2,193	932	
Total estimated annual savings (thousands)	3,767				

1/ Provided by FS engineering officials.

Implementation

These policies can be implemented immediately under directives issued by the Chief of the FS. No additional authorization is needed.

AG 48: Improve Data Processing Planning Process

Issue and Savings

The Forest Service (FS) should improve its planning for a \$75 million distributed data processing system. This will ensure realization of savings amounting to \$13 million annually and \$43 million over three years.

Background

The FS is in the process of acquiring a distributed data processing (DDP) system for the National Forest System (NFS). Current plans call for acquisition of 314 computers at 200 sites by the end of FY 1983 at an expected cost of \$18 million. Ultimately, the FS expects to install some 1,450 computers at a total cost of \$75 million through 1986. Planning for the 1983 installation is currently under way.

The planned DDP system is intended to support a variety of applications, for example, word processing; data entry and editing; electronic mail, including data transmission to USDA's central computer facility in Fort Collins, Colorado; and local processing in the 785 NFS regional, supervisor, and district offices. The system is a response to well-documented deficiencies in FS's current data processing resources.

Methodology

Extensive interviews were conducted with FS and other USDA personnel. The interviewees included a cross section of users of the planned system at several levels of FS operations, as well as systems specialists involved in the planning effort. All available documentation was reviewed. A professional information systems consultant with extensive experience in systems design and implementation conducted the interviews and performed the analysis.

Findings

The FS determined the need for DDP capabilities by examining limited "pilot" experience with local or forest-level data and word processing and by comparing this with analysis of the overall workloads within the NFS. These overall workloads were quantified in terms of:

- * Data handling and edit
- * Word processing
- * Electronic mail
- * Data base creation and inquiry
- * Report generation.

No specific application, function, or data analysis reviews were performed.

Based on this analysis, the FS expects to have awarded a contract for computer hardware by March 1983. The contract will be structured so as to set fixed unit prices for 1,450 computers but only obligate the FS to purchase 314. These 314 computers will be used primarily to expand the local (versus central) data processing capabilities where they currently exist and to replace obsolete hardware. From 1984 through 1986, the plan is to install computers where needed at sites that for the most part do not have mechanized data processing capabilities currently.

Implementation planning is currently in progress. Planning for the physical installation of hardware is the furthest along. Attention is also being given to software development and conversion activities and to the organizational implications inherent in installing and effectively utilizing the new processing capabilities.

Conclusions

PPSS has not set out to assess the justification for the planned FS DDP system. However, based on the review conducted, it is PPSS's considered opinion that the system probably is justified and represents a needed upgrade of FS's data processing resources.

However, based on a thorough review of the FS's implementation planning process and comparisons of that process with processes employed in successful systems installations in the private sector, PPSS concludes that the FS's implementation planning efforts need strengthening. Four particular deficiencies are noteworthy:

- * A lack of emphasis on realization of near-term productivity claims
- * Inadequate attention to organizational implications of the installation

- * A lack of formalized postimplementation review plans
- * Incomplete and inadequate information planning, i.e., a critical, cost/benefit-based FS's data resources and information processing requirements.

PPSS further concludes that the primary reason for these deficiencies is a lack of experience and expertise within FS in planning for and installing systems of comparable scale and complexity.

Finally, PPSS believes that failure to address these deficiencies will jeopardize prospects for realization of the benefits originally projected in justification of the DDP system.

Recommendations

To correct the four deficiencies noted above, the following are recommended:

AG 48-1: The FS should continue the implementation planning effort but give special emphasis to obtaining initial productivity improvements quickly. An application implementation sequence of word processing, data entry, conversion of existing local data processing systems, data base development/new applications, and linkage to the distributed data processing network should be considered in order to accomplish this recommendation. Planning should be completed prior to installation of the minicomputers, which is expected to begin in early 1983.

AG 48-2: Efforts must begin now to determine and create by the end of 1983 the most appropriate organization structure to support distributed data processing.

AG 48-3: The FS should formally evaluate the implementation methodology and the results of the installation of the obligated 314 minicomputers prior to making additional purchases. The computer installation plans and approach should then be modified as necessary to be as effective as possible.

AG 48-4: The FS should begin an information planning project as soon as is practical, concurrent with the installation of the proposed minicomputers. The FS should acquire a commercially available systems development methodology that includes an information planning methodology. This methodology should initially be used at least for the foundations of the information planning project. Strong consideration should also be given to obtaining outside assistance

from experienced information planners who are experienced with the methodology chosen.

Savings and Impact Analysis

Implementation of these recommendations should ensure that:

- * The \$75 million planned total system expenditure is wisely spent and, possibly, reduced to an absolute minimum justifiable level.
- * Cost avoidance savings of \$13 to \$26 million annually are, in fact, realized. On the average, 80 percent of the NFS's total personnel spend 50 percent of their time gathering, maintaining, processing, and/or analyzing information. A 5 to 10 percent reduction in the amount of information handled would equal \$13-26 million in savings as follows:

	Savings (\$ millions)
Total personnel budget	\$ 664
Cost of personnel involved in information handling (80% of staff)	531
Cost of time spent in information handling (50%)	265
Savings (5-10%)	\$13-\$26

Implementation

Each recommendation can be implemented by the authority of the Chief of the FS.

AG 49: Restructure Research Activities

Issue and Savings

The Forest Service (FS) should restructure its research activities to improve control, reduce costs, and enhance opportunities for greater private sector participation in research efforts. Over a three-year period, net savings of \$24 million could be realized.

Background

Two types of research are carried out by the Research Division of the FS:

1. Land Resource Protection Research

Research is conducted to provide basic knowledge and improved technology in the protection of resources from fire, insects, and diseases; in the evaluation of renewable resources; and in land and resource economics.

2. Renewable Resource Management and Utilization Research

Research is conducted to provide basic knowledge and improved technology for the management of timber, wildlife, fish, range, recreation, watershed, and urban resources.

FS research is carried out at approximately 80 research locations scattered throughout the country. There are an estimated 240 Research Work Units (RWUs) at these various locations; each of these RWUs is addressing a specific research project. There is a network of eight Forest and Range Experiment Stations and the Forest Products Laboratory in Madison, Wisconsin, administering these 240 RWUs at the research locations. Nationally, the FS research program is directed by the Deputy Chief of the FS for Research. He is supported by seven Washington office technical Staff Directors, each of whom oversees a particular area of research activity on important forest and rangeland problems. There are approximately 980 scientists carrying out the research projects at these 80 locations. In 1982, there were 2,260 full-time permanent positions in the Research Division. The FY 1982 budget for FS research is approximately \$110 million.

Specific projects addressed by the RWUs are formulated and approved after rigorous review by research executives of the FS. There is frequent consultation with the Cooperative State Research Services (CSRS), the forest industry, forest schools, and Agricultural Experiment Stations. Almost all projects are three to five years in length, and some may be continued for many years beyond.

Methodology

Several interviews and reviews of all available documentation were held in the course of the study. A research project currently being carried out by the Office of Management and Budget was also reviewed. This project examines the possible greater participation of the private sector in applied research projects of the FS.

Findings

Decentralization is the hallmark of the FS and Forest Research is no exception. At the same time, decentral-

ization, while giving great latitude to the creative energies of research scientists, has resulted in a multilayer structure of research hierarchy to administer activities in about 80 different locations throughout the country where research of various kinds is carried out in 240 RWU's. We have no way of judging the efficacy and value of the work being done or where overlap or duplication of effort might be occurring, although the research undertaken by the FS is highly respected by almost every person we interviewed.

Station oversight of RWUs consists of periodic supervisory reviews, review of annual attainment reports, and consultation on annual work plans and budgets. The stations were set up separately from the regional offices to maintain independence and because the Research Division is working with a totally different clientele than the National Forest System. The stations are staffed by scientists as well as the normal administrative and clerical support personnel. In some cases, the Regional Office and Research Station are quite close to each other -- Ogden, Utah, and region 4; Portland, Oregon, and region 6; and the Rocky Mountain Station and region 2.

Conclusions

The FS Research Division has a generally excellent reputation. We found little dissatisfaction with the quality of the research carried out or the dedication of the scientist themselves.

However, the FS needs to become a more lean, tightly knit organization -- one that can produce the same quality of research in a more cost-effective manner. With the advances in computer technology and communications, there is no longer the need for so many widely scattered research locations and layers of hierarchical supervision.

Recommendation

AG 49-1: Over the next year, the FS should close 8 to 10 research locations and, through consolidation, cease funding 20 RWUs. The three-year target should be a total of 20 to 25 location closings.

The estimate of closing 8 to 10 research locations in the first year is our best judgment based upon discussions with research executives and the plans for FY 1983. The same holds for the 20 RMUs as well as for the three-year estimate of 20 to 25 location closings. Bob Buckman, the current research chief, did not argue with these conclusions. If anything, these closings are conservative and attainable on the basis of business judgment.

AG 49-2: The research administration and support function of the four Western Research Stations should be transferred to regional offices.

AG 49-3: Cooperative research arrangements with private industry, associations, and interested parties should be actively pursued.

Savings and Impact Analysis

Assuming that net savings of \$200,000 per location can be realized through staffing, lease, and equipment reductions, closing of 25 research locations would result in \$5 million annual savings. With 10 locations closed in the first year and 15 additional locations closed over the succeeding two years, savings are expected to be \$2 million in the first year, \$3.5 million in the second year, and \$5 million in the third year, totalling \$10.5 million over three years.

Transferring the Western Research Stations to the regional offices should permit the reduction of 40 persons per station, or 160 persons for all four stations. This should yield an annual savings of \$4 million, or \$13.2 million over three years, allowing for 10 percent per annual escalation.

Implementation

The Deputy Chief of the FS can act on these recommendations under his/her own authority.

AG 50: Reduce Staffing Levels

Issue and Savings

The Forest Service (FS) should take steps to reduce its staffing levels by transferring and consolidating functions, controlling costs, and instituting work measurement systems. The gross savings from reduced staffing and related costs would be \$86 million in the first year and \$384 million over three years. Not included in the above savings estimates are one-time implementation costs of \$45 million. Total net savings for three years of \$339 million are projected.

Background

The FS is the largest single staff component of the U.S. Department of Agriculture (USDA), representing about 30,000 permanent full-time employees (PFT) and over 45,000 full-time equivalent (FTE) staff years in FY 1982. In recent years, the composition of FS staffing has changed

significantly, with a relatively higher proportion of employees in scientific and technical functions than in the rest of the Federal Government. This level has been driven by legislation, principally by the National Environmental Protection Act of 1970 (NEPA), the Resource Planning Act of 1974 (RPA), and the National Forest Management Act of 1976 (NFMA).

The composition of the staff of the FS in 1981 is shown in Table II-21. Employees include permanent and temporary full-time positions.

Table II-21
Personnel Composition, 1981

	<u>Forest Service</u>		<u>Total Fed. Government</u>		<u>Forest Ser. % as Multiple of Fed. Gov't. %</u>
	<u>Empls.</u>	<u>% of Total</u>	<u>Empls.</u>	<u>% of Total</u>	
Professional	11,240	30.6	322,439	21.9	1.4
Administrative	3,099 ^{1/}	8.4	391,062	26.5	0.3
Technical	16,970	46.3	333,361	22.6	2.0
Clerical	5,095 ^{1/}	13.9	385,907	26.2	0.5
Other	<u>285</u>	<u>0.8</u>	<u>41,751</u>	<u>2.8</u>	0.3
Total	36,689	100.0	1,474,520	100.0	

Source: Central Personnel Data File, the automated personnel file for Federal employees.

1/ The General and Administrative costs, which cover some of these types of employees, were capped by Congress.

As shown, professional and technical positions in the FS are 1.4 times and twice, respectively, the concentration of these positions in the Federal Government as a whole.

FS resource planning required by the above-mentioned legislation is a complex and costly effort. Some FS personnel estimate that the planning costs are 10 percent of the total FS budget, or approximately \$225 million based on 1983 budget obligations of \$2,256 million.

FS budget documents reveal only the smallest part of the cost of this planning activity. The latest FS budget states that the new planning approach actually saves money compared with the earlier, more fragmented planning.

However, based on our examination, quite the opposite is true. The total costs of this legislatively mandated planning are impossible to estimate with precision, because they are spread over and obscured within so many budget accounts. This lack of visibility has contributed to the failure to improve planning control and discipline. The Task Force analysis of planning costs suggests total spending is at an annual level of \$150 to \$200 million. In addition, current spending levels are primarily attributable to net new or incremental planning costs (budget statements notwithstanding).

The planning and overhead burden that has been placed on the FS can be seen in an analysis of personnel by function. In the National Forest System (NFS) regions, forests, and Ranger Districts (which account for most FS staffing), about 10 percent of all personnel are in the engineering function; another 10 percent are in specialized scientific and technical functions related to planning and the FS's multiple-use concept; and an estimated 12 to 15 percent are in administrative functions. Thus, over 30 percent of the FS total direct personnel budget of \$916 million consists of indirect and overhead costs.

Additional overhead costs are included in the General and Administrative (GA) expense budget of the FS. Dollar levels for GA in recent years have remained relatively constant, as noted below:

GA Budget

FY 1981	\$267 million
FY 1982	\$238 million
FY 1983	\$260 million

Some of these costs, particularly \$90 million for "common services," are essentially outside FS control. Almost \$39 million is for "line management," which probably cannot be significantly reduced without a major effort toward consolidating the 900 FS field locations. However, the largest component of GA is \$129.6 million for program support, consisting principally of 345 FTEs in the Washington office and 5,119 FTEs in the field.

In addition, cost control efforts are hampered because no work measurement system is in effect. Until the early 1970s, the FS had a work measurement system. As the nature of the work elements progressively changed, the system fell into disuse. Currently, a major Agency-wide effort is under way to improve the techniques of work-force management. The FS can now compare certain key workload indicators from period to period, region to region, and forest to forest.

Duplication of functions, both within the FS and with other agencies, is another problem area leading to increased costs. The FS maintains some 900 field locations throughout the country, many of which are located in the same cities or within practical commuting distances of other FS offices. For example, research stations and regional offices are in close proximity in four locations:

- * In Ogden, Utah, the Intermountain Station and the NFS region 6 office;
- * In Portland, Oregon, the Pacific Northwest Station and the NFS region 6 office;
- * In San Francisco, California, the Pacific Southwest Station (Berkeley) and the NFS region 5 office;
- * In the Denver, Colorado, area, the Rocky Mountain Station (Fort Collins) and the NFS region 2 (Lake-wood) office.

Congressional appropriations language prohibits moving FS offices or adjusting regional boundaries.

Both the Interior Department and the FS have responsibilities for minerals and energy leasing. In accordance with a 1920 statute, coal mining leases may not be issued by the Secretary of Interior on NFS lands without the consent of the Secretary of Agriculture. Also, a 1945 Agriculture-Interior memorandum of understanding requires that recommendations must be sought from Agriculture before other types of mineral leases may be issued on NFS lands.

The relatively newer Minerals Management Service (MMS) of Interior has technical, "downhole," postlease, and royalty collection responsibilities. Again, there are three lengthy agreements between FS and MMS to coordinate their respective surface plans in connection with mineral lease applications.

Methodology

A separate team within the Agriculture Task Force analyzed FS staffing and organization. FS-published documents were reviewed, interviews were conducted with FS officials and other Federal land management agencies, and a field survey covering three NFS regions was conducted.

Findings

For a number of reasons, some of which are outside FS control, staffing in a number of functions has grown larger

than can be justified. Basic causes driving staff costs higher are the following:

1. FS orientation toward staff growth is best illustrated by the Resource Planning Act (RPA) assumption of continued growth, in spite of the fact that resources are relatively fixed and that RPA levels generally have not been subjected to stringent economic and cost-benefit analyses.
2. The lack of an adequate work measurement system has resulted in accounting and control problems. Given the size of the FS direct personnel budget (estimated at \$916 million), there would be important FS benefits and cost savings associated with the installation of a work measurement system. Experience with public as well as private organizations demonstrates that a minimum 5 to 10 percent reduction in staff costs can be achieved through installation of such a system. Usually, returns are much higher.

Development costs of \$5 to \$6 million in the first year, \$3 to \$4 million in the second year, and continuing system maintenance costs of \$2 million per year after the third year are expected.

3. There has been a lack of control regarding the costs of FS and RPA planning. Base cost at the forest level is \$300,000 to \$500,000 per plan. Typically, these costs are broken down as follows:

Personnel costs	\$200,000
Computer costs	100,000
Other costs	100,000
Total cost	\$400,000

Costs at the regional and national levels are also extremely high, as are the costs of dealing with other Government entities and a variety of private interests in regard to proposed plans and their subsequent interpretation and implementation. These costs are composed of the following elements:

- * Direct personnel cost of planning specialists
- * Line management time all the way from the District to the Washington office level, which is diverted from other tasks
- * An increase of staff specialists in about 15 scientific disciplines who are principally identified with the planning activity

- * Expensive computer system approaches
 - * A trial-and-error approach to building required data bases outside the timber sales data base, which was the beginning point for the system
 - * In some cases, an overcautious approach to required plans, which adds time and cost in the hope of avoiding appeals; appeals are, in most cases, filed anyway
 - * Failure to set standards for various elements of the plan, allowing it to become a "specialist-driven" process.
4. There has been a growth of staff and functional "counterpart" organizations throughout the FS. The basic FS structure and philosophy were developed early in the organization's history. The approach has changed little in the intervening years. Like other successful and enduring organizations, the FS has stuck with its guiding philosophy and organizational "culture" built around such elements as professionalism, decentralization to the ranger level, and so on.

Yet these very strengths make it difficult for the FS to adapt to changing conditions. Technology is now having an impact on the organization, and that force will continue. However, Congressional appropriations language prohibits any broad and basic organizational review. It is incongruous to require the FS to plan 5 and 50 years ahead for the physical resources under its custody as required by the RPA and NFMA and, at the same time, prevent planning even 2 years ahead for the organization responsible for carrying out these responsibilities.

The Agriculture Task Force noted the following examples of conditions that allow the growth of staff functions and possibilities for staff reductions:

- * Specialized scientific or technical staffing has typically taken hold at one organization level and then been duplicated at others. Attempts to counteract this growth by sharing specialists in "zones" or combined service units (CSUs) have not been successful.
- * Despite improvements in work-force management at the regional level, no fully satisfactory system exists for validating FS staffing levels in relation to projected or actual workloads.

- * FS organizational guidance has 19 staff offices, plus offices for information and education for program planning and budgeting at the regional level, and eight staff functions at the forest level. This horizontal spread of staff functions does not appear warranted.
 - * Staff reductions are feasible in all of the following areas:
 - Personnel functions at the Washington office and at regional and forest levels
 - Other administrative functions at all levels
 - Engineering at the Washington office and at regional levels
 - Specialized scientific and technical staffing at all levels
 - Improved management and utilization of seasonal and temporary personnel.
5. Even with the NFS regions gradually reducing their staffs, regional offices should be able to provide administrative and management support services for the research field operations where contiguous locations permit. Reduction in FS direct support should be undertaken by reducing field locations, not through CSUs or "zones," which themselves tend to create another layer of organization complexity.
 6. FS technical and administrative staff functions and staffing numbers have grown at a much faster rate than have traditional line functions and line occupations. This is accounted for, in large part, by legislation. There are no objective work-load data to support current levels of staffing in some job categories. In addition, certain specific functions at particular organization levels need critical review, namely, engineering, personnel, contracting, and information and education.
 7. Neither the budget formulation nor the budget execution process, although they are high in administrative costs, focuses closely on personnel allocation and control. The frequently stated response to the issue of personnel control -- that the FS "manages project work, not people" -- is not persuasive, given the staff intensity of FS programs and the fact that the projects in which people are engaged have not generally been subjected to

thorough initial economic analysis and rigorous assignment of priorities.

Conclusions

FS staffing can and should be reduced, particularly in administration, engineering, and specialized scientific and technical functions. Properly planned and executed, staff reductions can be carried out without adverse effects on performance.

Field research organizations are relatively small compared with NFS. For example, in all of the field sites associated with the Pacific Northwest Station (Portland) there are about 300 FTEs, compared with about 10,000 FTEs in region 6. This suggests that the NFS region should be able to deliver administrative and support services with much greater efficiency.

In Portland, the NFS region and the research station are already examining which administrative services can be consolidated. By providing direct-support administrative services from the regions to the stations in the four locations named in the Background section, about 35 nonprogram personnel could be eliminated from each of the stations, or 140 overall, yielding estimated annual savings of \$4,500,000 in personnel costs, plus another 5 percent (\$175,000) savings in facility, communications, and other personnel support costs. Thus, total savings per year exceed \$4.6 million.

The Northeast region is the only one in which the State and Private Forestry (S&PF) office has not been consolidated into the NFS regional office. The Broomall office was not visited during the field survey, but data indicate there are about 148 FTEs associated with that separate function, which is large compared with the S&PF function in other regions, even considering that the function in the Northeast covers 20 states. Administrative and support services are said to be provided by the Northeast Research Station in Broomall at an estimated level of 16 FTEs.

The Agriculture Task Force observed that, in regions where the FS has high levels of minerals activity, the coordination between FS and MMS can be made more efficient. The opportunity for savings lies principally in avoiding having the MMS "back check" work NFS had already done and work for which NFS has statutory responsibility. The NFS budget for these general activities is \$18.5 million. NFS region 1 (Missoula, Montana) has written a clear and concise option paper on this subject and recommended a course of action.

The cost of FS planning is unnecessarily high. The cost is not being adequately tracked and analyzed. The amount of line management time that has been taken by planning raises questions about how much staffing slack there was in the system to begin with. Legislative requirements can be met at lower cost levels. Furthermore, it might be timely to undertake a review of legislative requirements based on the learning experience to date.

Immediate action is necessary to simplify and reduce the cost of FS planning while continuing to fulfill NEPA, RPA, and NFMA requirements. Such action will produce the twin benefits of controlling costs that are now essentially uncontrolled and increasing the probability of converting plans to practical management systems.

To date, specific overhead cost reductions have been set for only certain personnel functions: a 25 percent reduction is targeted over a five-year period. Similar or greater savings potential exists in other administrative functions as well: budget formulation, contracting, administrative services, civil rights, and others. There is too much administrative staff at all four organization levels. Decentralization has not generally contributed to administrative efficiency.

The FS should proceed to develop and install a work measurement system. The system should be a standard one used throughout the FS; delegation of this responsibility to the regions will not work. Implementation of such a system is a high priority, not only because evidence suggests that historically the FS has not tightly controlled staffing, but also because general FS management attitudes about the importance of staffing control need to be changed.

The FS organization and decentralized approach have worked well over the years. Yet current conditions and modern management technology dictate that further adaptation of the organization be considered. Inflexibility of organizational structure is one of the basic reasons for the high cost of FS operations.

Recommendations

AG 50-1: The Chief of the FS should direct the four regions and stations noted previously to prepare plans to consolidate support services and to submit them to him/her for approval. Beginning in 1983, the four regions should provide management and administrative support services to the contiguous stations. The Chief should also direct that further study be undertaken of the same functions in the

four remaining Research Stations and that targets be set for administrative cost reductions in those areas as well.

AG 50-2: Consolidate the Northeast S&PF office with NFS region 9.

AG 50-3: The FS and MMS should prepare a current memorandum of understanding that reduces or eliminates incidents of duplicative activity and unnecessary cost. Field people from both organizations should be involved in the negotiations to ensure that the agreement is workable. The agreement should be ready for approval in 60 days.

AG 50-4: The Chief of the FS should impose a limit on the cost of all planning for FY 1983. This should be expressed as a percentage of forest budgets (4% for large forests and 6% for small forests) and as a dollar amount for other organizational levels. Forests and regions should be required to report the specific cost eliminations they have made. Detailed personnel plans should be prepared to reduce the number of scientific and technical specialists who have multiplied at every organization level to carry out the interdisciplinary requirements of the governing legislation (NEPA, RPA, NFMA).

As specialized planning staffs are reduced, the FS should establish a policy that specialized requirements of this type will be met, wherever possible, through contract, research grant, cooperative agreement with universities, and pooling of scientific staff with other Federal and state agencies.

The FS, with USDA and the Office of Management and Budget (OMB), should consider whether it is timely to undertake a legislative review of statutes governing planning activities.

General standards should be established by the Chief for each planning element and for the entire planning process.

AG 50-5: The Chief of the FS should establish specific GA cost reduction targets for FY 1983, FY 1984, and FY 1985. Measured against actual FTEs and obligated dollars, past FS projections of cost savings and personnel reductions have often proved to be inaccurate. The Washington office should set firm targets and stick to them.

Lack of an adequate work measurement system makes it difficult to control and analyze rising administrative costs. Nevertheless, vigorous effort to reduce this category of cost should not wait for the development of such a system. Large investments are now being made in ADP distributed

processing, word processing, and other technologies. Specific returns on these investments in the form of administrative cost reductions should be quantified and delivered.

A target of 10 percent cost reduction in the overall GA account seems reasonable and achievable. Since half of GA expenses relate to program support, 20 percent of the program support element of GA expenses can be eliminated. Attrition and tough-minded position management should contribute a major part of the estimated savings.

AG 50-6: A plan should be prepared to reduce staff in the Washington office, particularly in the following functions: information, programs and legislation, NFS engineering, and administration. The Agriculture Task Force estimates that about 125 FTEs can be eliminated in the Washington office.

FS organization guidance should be revised to require program (rather than functional) organization at the regional level and to sharply reduce the number of staff components within the program organization structure. Technical, as well as administrative and fiscal, functions should be combined into broader units to reduce staffing. It is estimated that 300 FTEs can be eliminated in this manner.

The Chief of the FS should direct, as noted in other sections, that technical specialist staffing be reduced. Explicit policy should state that, whenever appropriate or feasible, specialized scientific knowledge be obtained through contracting, cooperative research grant, or agreement.

Direct engineering functions at the regional level should be eliminated. Elements such as cartography and geometronics, which represent large staff numbers, should be contracted out. Engineering functions which remain in the regions should consist of policy and coordination functions. It is estimated that as many as 450 FTEs can be eliminated this way.

Contracting responsibilities should be consolidated at one organizational level.

AG 50-7: The Chief of the FS should direct that a project-oriented work measurement system be developed and installed.

Each project over a certain dollar amount should be required to undergo a value or cost-benefit analysis of a prescribed form prior to approval and initiation. During

this stage, standards can be increased or decreased based on factors such as climate, topography, labor market conditions, and so on.

This basic form of analysis should, as a matter of policy, should also serve to meet A-76 goals of determining which functions (projects) ought to be performed in-house and which contracted out.

Before locking in the development of the system, an analysis should be undertaken to determine whether, as in most cases, 20 to 30 percent of the activities account for 75 to 80 percent of the costs and whether these major activities have been captured in the cost-benefit system.

Future improvements in the FS cost accounting system (which are urgently needed) should be compatible with this recommended system.

A project tracking and reporting system should also be implemented.

AG 50-8: The zone or CSU approach to shared services does not appear to be achieving its intended objectives and should be reexamined.

The appropriation structure should be simplified to reduce FS administrative costs (Congressional action required).

The costs of personnel processing should be reduced by improving time and attendance (T&A) reporting, position description maintenance, position classification, and NFC transaction processing.

A consolidated salaries and expense account should be established, which would save administrative dollars while improving visibility and control of staff costs.

The number of FS transfers and reassignments (the cost of which is estimated at \$15 million per year) should be reduced, even though such a reduction will to a degree conflict with merit selection principles and FS professional and career development.

Human resource programs, though funded by the Department of Labor, should be reexamined in the current FS context.

Contracting should be subjected to closer continuing review in order to ensure that uneconomic contract projects are weeded out.

AG 50-9: A comprehensive study of the FS organization should be undertaken in addition to the recommendations presented above. The study should focus on the current organization system and on FS's commitment to decentralization. These basic management concepts now warrant reexamination because decentralization may not be the most appropriate way to achieve staff efficiency, and because the current organization philosophy has led to the growth of large "counterpart" organizations at all four of the FS's organization levels.

Savings and Impact Analysis

Savings are estimated at \$86 million in FY 1983, growing to \$166 million by 1985. Since the recommendations overlap, a "netting-out" factor is included in these estimates. About 80 percent of these savings are direct personnel costs and benefits. Implementation costs are estimated at \$45 million. Details of the above follow:

AG 50-1: Consolidating the administrative functions of four regions and stations would yield annual savings of \$4.8 million, as follows:

	<u>Savings (\$)</u>
Eliminate 140 FTEs (\$25,024 annual salary each)	\$3,503,360
Benefit cost (30%)	1,051,008
Indirect personnel cost (5% of direct costs)	<u>227,718</u>
Total savings	\$4,782,086

Separation costs for the 140 FTEs are estimated at \$2.5 million, which would reduce the first-year savings to \$2.3 million (\$4.8 - \$2.5).

AG 50-2: Region 9 consolidation should yield the following savings:

	<u>Savings (\$)</u>
Eliminate 16 FTEs in administrative functions (\$25,024 annual salary each)	\$ 400,384
Eliminate 30 additional program personnel	750,720
Benefit cost (30%)	345,331
Indirect personnel cost (5%)	<u>74,822</u>
Total savings	\$1,571,257

Because of implementation lead times, the Task Force estimates that in 1983 only half the proposed savings will be

achieved (\$800,000). The cost of the move would approach \$3.0 million, so a payback would not occur until the end of the second year.

AG 50-3: Estimated savings from simplifying the minerals leasing coordination between Agriculture and Interior are \$3.0 million for the FS, and this should be achievable within FY 1983. Estimates of MMS (Interior) savings are beyond the scope of this Task Force. Total implementation costs of \$250,000 are anticipated.

AG 50-4: Imposition of an administrative cost limit on FS planning is clearly within Agency authority. Sources of estimated cost savings are detailed below (for a discussion of specialist staffing, see AG 50-6):

	Savings (\$ millions)
Reduction in administrative management costs related to planning (can be accommodated through attrition)	3.0
Internal (FS and USDA) computer, systems, and related costs	4.0
Reductions in planning and direct support personnel	0.75
Purchased computer systems services	2.0
Other purchased support and administrative services	2.0
Word processing, editing, printing, and publishing costs	4.0
Costs for external activities and litigation costs of amending regulations	3.0
Other unspecified costs	6.0
Reductions in scientific and technical specialist staffing (reduction of 325 positions at \$35,000 per year plus 30% benefits)	<u>14.80</u>
Total	\$39.55

Obviously, the last element of cost cannot be reduced without intensive planning and some reasonable period for

implementation. Savings for 1983, therefore, are estimated at approximately \$30.0 million, allowing \$10 million for delays and contingencies. In addition, implementation costs of \$1.0 million are expected.

AG 50-5: A 10 percent reduction in GA costs of \$260 million for FY 1983 is projected. Attrition and toughminded position management should contribute a major part of the estimated savings. It is estimated that the 10 percent target will be reached in FY 1984 and that savings for FY 1983 will be approximately half this amount, or \$15 million. In addition, implementation costs of \$2.5 million are projected.

AG 50-6: Reducing staff size to 27,000 PFTs and 8,000 FTEs (compared with 42,384 total positions in FY 1983) can generate estimated savings of \$10 million in the first year, increasing to \$35 million in the third year of implementation. Staff reductions of this magnitude must be planned and executed carefully to avoid adverse effects, and implementation costs of \$15 million are projected.

AG 50-7: Reducing personnel costs through installation of an effective work measurement system is consistent with the FS planning and budgeting approach. In several years, application of these techniques should yield at least 5 percent staff savings, or \$45 million (based on personnel costs in FY 1983 or \$916 million). About \$5 million of these potential savings is covered in other recommendations and netted out in the summary of cost savings shown in Table II-22. For 1983, estimated savings are approximately half the 5 percent goal, or \$22 million. Implementation costs of \$15 million have been estimated.

AG 50-8: Savings from improvements in the administrative process not covered by other recommendations are conservatively estimated at \$12 million per year, with expected implementation costs of \$2.0 million.

AG 50-9: It is not feasible at this time to estimate the savings and impact that would result from a comprehensive organizational study. However, expected implementation costs of \$3.5 million have been reflected in the savings summary.

There is some unavoidable overlap among certain actions and savings summarized in the preceding sections. Recommendations dealing with overhead (GA), planning, and staff duplication at various organization levels, as well as with the need for improved work-force management and control, are

all focused on similar cost targets. The overlaps are not as great as they might at first appear to be because of differing time frames. For example, implementing an appropriate work measurement system will take longer and pay off more slowly than some other, shorter term recommendations. A three-year summary of the savings shown in Table II-22.

	<u>\$ millions</u>
Total three-year gross savings	\$383.8
Less one-time implementation costs	<u>- 44.8</u>
Total three-year net savings	339.0

Implementation

Recommendations AG 50-1 and AG 50-3 through AG 50-8 can be carried out by the current authority of the FS Chief. Recommendations AG 50-2 and AG 50-9 require Congressional action.

Table II-22
Summary of Recommendations and Projected Savings

<u>Recommendation</u>	<u>Authority</u>	<u>Gross Savings (\$millions)</u>			<u>Less Imple- mentation costs (\$ Mils)</u>
		<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	
		(Year 1)	(Year 2)	(Year 3)	(Year 4)
AG Transfer administrative 50-1 functions from four research stations	Agency/ FS Chief	\$4.8	\$5.3	\$5.8	\$2.5
AG Consolidate NE S&PF 50-2 with NFS Region 9	Congres- sional	0.8	1.7	1.9	3.0
AG Simplify minerals leas- 50-3 ing coordination, NFS-MMS	Coordina- tion be- tween Ag- riculture and Interior	3.0	3.3	3.6	0.25
AG Place an administra- 50-4 tive limit on the cost of planning	Agency/ FS Chief	30.0	44.0	48.0	1.0

Table II-22
Summary of Recommendations and Projected Savings--continued

<u>Recommendation</u>	<u>Authority</u>	<u>Gross Savings (\$millions)</u>		<u>Less Imple- mentation costs (\$ Mils)</u>
		<u>FY 83</u>	<u>FY 84</u>	
		(Year 1)	(Year 2)	(Year 3)
				(Year 4)
AG 50-5 Control and reduce GA costs	Agency/ FS Chief	15.0	27.0	30.0
AG 50-6 Reduce the size of "counterpart" organizations at various organizational levels	Agency/ FS Chief	10.0	25.0	35.0
AG 50-7 Install improved work measurement system	Agency/ FS Chief	22.0	35.0	55.0
AG 50-8 Improve administrative processes	Agency/ FS Chief	12.0	13.0	14.0
				2.5
				15.0
				15.0
				2.0

Table II-22
Summary of Recommendations and Projected Savings--continued

<u>Recommendation</u>	<u>Authority</u>	<u>Gross Savings (\$millions)</u>		<u>Less Imple- mentation costs (\$ Mils)</u>
		<u>FY 83</u>	<u>FY 84</u> <u>FY 85</u>	
		(Year 1)	(Year 2)	(Year 3)
				(Year 4)
AG Undertake comprehensive study of FS organization	Congressional	-	-	3.5
Subtotal		\$97.6	\$154.3	\$44.8
Less duplication or overlap		(12.1)	(21.8)	--
Total		\$85.5	\$132.5	\$44.8

Note: "Outyear" savings for FY 1984 and FY 1985 are escalated by 10 percent per year. First-year savings estimates are reduced to reflect time required for implementation, where appropriate.

G. SCIENCE AND EDUCATION ADMINISTRATION

Overview

Agricultural research provides new knowledge and technology to ensure an adequate supply of food and fiber for the Nation's population now and in the future. A basic goal of agricultural research is to establish a high-yielding agriculture that also supports a quality environment and conserves energy.

The responsibility for much of the public segment of the agricultural research and development program lies with the research agencies of U.S. Department of Agriculture (USDA) and the land-grant college system of State Agricultural Experiment Stations (SAES). The interrelated and cooperative programs of USDA and SAES cover research at more than 500 locations.

In the Food and Agriculture Act of 1977, Congress mandated USDA to implement the first comprehensive national plan for human nutrition research and education programs. Increased interest in human nutrition research has resulted from a number of developments, including a growing conviction that proper nutrition is a primary component in preventive health care, and that a relationship exists between diet and some of the chronic degenerative diseases in the United States.

Research in human nutrition is defined broadly to include research on specific nutrient requirements and food composition; the relation of diet to disease; food safety; factors influencing nutritional practices, food choices, and consumption behavior; and the impact of farm market practices on consumer food choices.

The human nutrition section within USDA's Agricultural Research Service has primary responsibility for human nutrition research. It directly administers human nutrition research at five centers across the country.

AG 51: Create National Board of Agriculture

Issue and Savings

National objectives and missions for agricultural research should be established by organizing a National Board of Agriculture. Realignment of the present regions is also suggested. Annual savings would be \$76 million, or \$251 million over three years.

Background

Until recently, the State Agricultural Experiment Stations (SAES) represented essentially all of the food and agricultural research in America. The SAES is complex, involving 28,000 faculty members of land grant institutions at 450 locations.

Agriculture research is funded 50 percent by the Federal government, 30 percent by the private sector and 20 percent by state appropriations.

At present, there is no practical way to coordinate research efforts to identify gaps or to manage programs toward public or private use efficiently and effectively within the U.S. educational system.

Methodology

Data were gathered through some seventy interviews with Federal staff (the U. S. Department of Agriculture (USDA), the Office of Technology Assessment (OTA), The Office of Science and Technology Policy (OSTP), the National Science Foundation, Department of Energy (DOE), the National Institutes of Health (NIH), state staffs (SAES, USDA, Joint Council and User Advisory Board members), and the private sector (agribusinesses totalling \$20 billion in sales). In addition, reports from the General Accounting Office, OSTP, and National Academy of Sciences (NAS) were reviewed, as well as published policy analyses.

Findings

The Joint Council and Users Advisory Boards were set up in 1977 to develop the mission, goals, objectives, and priorities for USDA-supported research. They are required to submit a report to the Secretary annually with recommendations.

The research activities of the private sector and other Federal departments are not represented in a significant way on these boards.

The Computerized Research Information system collates all research project titles and classifications. At present, a three-year lag exists between actual performance of the research and reporting.

This spring, the Rockefeller Foundation and OSTP sponsored a report on "Critical Issues in American Agricultural Research." The lack of clear, implementable national goals, priorities, and plans for agricultural research was cited as a critical issue.

In 1981, OTA published an assessment of the U.S. Food and Agricultural Research System. It concluded "The lack of well-defined and agreed-upon national goals for U.S. food and agriculture is a major deterrent in formulating broad food and agricultural policy at the national level"

The SAES's are divided into four regions heavily laden but loosely coordinated with committees, councils, and advisory boards. No significant coordination currently exists within or between regions to include public and private institutions outside SAES which expend about \$550 million of Federal funds other than those of USDA.

The private sector agribusinesses consider the Nation in terms of seven to nine regions based on agricultural differences, for example, soil, crops, livestock, weeds, etc.

Conclusions

In spite of the fact that Congress has assigned the lead agency role to USDA to develop national goals and to coordinate Federal funding of food and agricultural research, USDA has not assumed its role in any significant way. It has not been effective in setting national objectives. These national objectives should be the result of recommendations from a board representing the split of funding from USDA (24%), other Federal departments (24%), states (20%), and the private sector (30%). The research activities of the private sector and other Federal departments are not represented in a significant way on the present boards. Private sector companies have stated a willingness to participate in coordination of research objectives.

The SAES system is central to agricultural research. The system must be managed in order to increase efficiency of public usage of technology and to increase its effectiveness in placing investments against high-payoff and nationally important priorities.

In its present form, the SAES system's research cannot be coordinated and managed on a responsive basis.

The superstructure of committees over SAES appears to spend its efforts in securing more research funds for their own regions or states rather than in coordinating or reporting on research.

Recommendations

AG 51-1: A national board should be organized to develop national goals and missions for federally funded research in agriculture. This board should also defend and communicate activities to the necessary government entities, Congress and the executive branch. The composition of the board should reflect USDA (as the lead agency), other Federal departments, and the private sector. In addition, NAS and OSTP should be represented.

AG 51-2 : Nine geographic regions based on agricultural environmental conditions should be established to replace the four regions of SAES, with Regional Directors replacing the present system of four Directors-at-Large.

Savings

With the setting of national goals and priorities, less appropriate programs can be canceled or funds shifted and greater efficiencies attained within the Federal sector of agricultural research and between the public and private sectors' research. Of a total budget of \$1.2 billion, a potential savings of 5-7 percent, or \$75 million, should be possible in the judgment of the Task Force.

With an increase in management control at the activity level rather than at the grantor (USDA Washington office) level, a reduction in USDA's Washington-based staff from a present level of 126 to 90 by FY 1984 should be possible (See appendix for more details). This would represent a saving of \$1 million in 1983 and \$3.3 million over three years. The nine new regions will be able to operate with no increase in staff.

Implementation

Since Congress has named USDA the lead agency in food and agriculture research, it would seem to be within the purview of the Department of interpret Congress' mandate to include the establishment of a National Board of Agriculture and to realign the SAES regions.

AG 52: Reorganize the Agricultural Research Service (ARS)

Issue and Savings

The Agricultural Research Service (ARS) should be reorganized to strengthen management effectiveness. Some \$25 million could be saved annually, or \$83 million over three years.

Background

The Agricultural Research Service (ARS) is the principal intramural research agency of the U.S. Department of Agriculture (USDA). Its mission statement explains that "through fundamental and applied research, ARS seeks to provide the means to solve the technical food and agricultural problems of broad scope and high national priority as required to assure perpetually an adequate supply of high quality food and fiber for the American people and for export"

The ARS conducts basic and applied research programs at approximately 150 locations in the states, the District of Columbia, Puerto Rico, the Virgin Islands, and several foreign countries. Some 7,600 full-time and 1,200 part-time employees perform the work of the service. Some 2,739 scientist staff-years are assigned to the 3,755 research projects conducted under the 69 broad national research programs into which the various researches of the ARS are classified.

The ARS, as currently constituted, is a matrix organization of line and staff activities and responsibilities. The line management consists of four Regional Administrators assisted by 13 Area Directors and 12 Directors of major research centers, all located in field offices. The Deputy Administrator of ARS is responsible for staff functions carried out at headquarters by the National Program Staff (NPS) and for a small Program Planning and Analysis group. He has four assistants or special coordinators in program areas related to Human Nutrition, Plant Germplasm, Energy, and Biological Safety and Emergency Preparedness.

The current budget (FY 1982) for the ARS totals some \$425 million, with \$369 million for research programs and \$56 million for management overhead. Of the overhead, \$35 million is incurred at headquarters, \$17 million at the regions, and \$4 million at the area level.

Methodology

Some 40 personal interviews were conducted with Federal and state agricultural and related staffs such as those of USDA, the State Agricultural Experiment Stations (SAES), the Office of Science and Technology Policy (OSTP), the Office of Technology Assessment (OTA), the National Institutes of Health, and universities. Pertinent analyses, reports, policy statements, and congressional testimonies were studied. The current structure and operations of the ARS were particularly examined.

Findings

Several prior studies have raised serious questions about ARS's current plan of organization. For example, in a 1981 study, OTA stated that ARS "is not organized to manage, conduct and be responsive to broad regional, national, and international agricultural research needs and interests of the United States" OTA went on to ask whether USDA, with its present structure, has a national research program or merely a series of local and regional activities.

Similar concerns have been raised by OSTP, the Joint Council on Food and Agricultural Sciences, and many scientists.

The National Agricultural Research and Extension User's Advisory Board has made reorganization recommendations that were not implemented by ARS. The Board pointed out that only 65 percent of the ARS budget is used to support the work of scientific and technical staffs; and the balance is used for wage-grade and other support workers--an "exorbitant" share in their view. They recommend that a reorganization of ARS to reduce layers of supervision and administration be considered.

In addition to other studies, PPSS has found through extensive interviews a variety of apparent symptoms of organizational deficiencies. These include:

- * Research projects or programs conducted at the bench or field level, although they are coordinated by the headquarters staff of the NPS, often reflect the special pressures and demands of the area or region rather than the national goals.
- * The management function appears to attach undue importance to bureaucratic procedures and processes and often to impede the efficient operation of ARS in its research pursuits.

- * The scientists, especially those in or above the supervisory levels, feel that they must devote too much of their time to unproductive paper shuffling, completion of reports, documentation, and so on, at the expense of their research activities.
- * The field scientists express a feeling of isolation from others in their discipline, both within and outside the ARS and USDA locations.

Many of ARS facilities are underutilized. For instance, the figures for occupancy at the four Regional Research Centers show a capacity of a total of 757 occupants but were occupied by 600 in 1981, or underutilization by 21 percent.

There appears to be considerable overlap in functions between headquarters and regional offices.

Conclusions

ARS's current organization structure is inefficient and is probably inhibiting research effectiveness. Two deficiencies appear paramount:

- * The lack of congruence between field research programs and national research goals--a reflection of the absence of an effective organizational structure and coordination mechanism for establishing and transmitting goals from Washington to the field.
- * Excessive administrative superstructures that, independent of the research goals, appear to impede their achievement by adversely affecting scientists' morale, isolating them from their peers in the scientific community, and overloading them with administrative reporting requirements.

Recommendations

AG 52-1: Establish the Office of Deputy Administrator for Administrative Management at headquarters reporting to the Administrator of ARS.

AG 52-2: Establish two field Administrative Service Centers, one for the West and one for the East. (These might be located at one or other of the existing ten Federal Regional Centers.) These two Centers would be responsible for all administrative functions required at all field locations. These would be directed by the Deputy Administrator for Administrative Management.

AG 52-3: Eliminate the offices and staffs of the four Regional Administrative Offices and the 13 area offices. Some personnel on these staffs would be redirected to Headquarters, to the Administrative Service Centers, or to field research locations.

AG 52-4: Establish two Associate Administrators in the Administrator's Office, one for western and one for the eastern research locations. These Associate Administrators would ensure that national programs were implemented, would assist in the development of Departmental policy, would accommodate requests from the Executive Branch and Congress, and would work with administrative management in matters relating to responsibility for all field locations in their respective regions.

AG 52-5: Provide for about 16 to 20 National Program Research Leaders in place of the approximately 40 now serving at headquarters. These would represent the various important disciplines or disciplinary areas (e.g., animal sciences, postharvest technology) into which the research work and ARS national scientists can be classified. The National Program Research Leaders would report activities in their disciplinary areas through two Assistant Deputy Administrators, one for plant sciences and natural resources and the other for animal sciences, postharvest technology, and human nutrition. The National Program Research Leaders would have the responsibility and authority for the conduct of the research at field locations in their area of specialty and would coordinate field research with NPS.

AG 52-6: The present staff of 15 or so National Technical Advisors would be expanded to perhaps 50. These staff members would be responsible for program review to the National Program Research Leaders and would operate singly or assemble small review teams as necessary in reviewing ongoing research projects at field locations. The National Technical Advisors would devote not more than half of their time to research reviews.

AG 52-7: Information staff functions for ARS would be centralized at headquarters. Patent advisors would be assigned to the two administrative service centers.

AG 52-8: The offices of the Assistants to the Deputy Administrator for Plant Germplasm, for Energy, for Human Nutrition, and for Biological Safety and Emergency Preparedness would be retained.

AG 52-9: The Information Division, Pesticide Impact Assessment Staff, Radiological Safety Staff, Assistant to the Administrator for International Activities, and ARS research

units at foreign locations would report as present to the Administrator.

AG 52-10: The seven major research centers and the five Human Nutrition Research Centers would report operationally to the appropriate Associate Administrator and their research program direction and assessment would be performed by the NPS.

AG 52-11: The Deputy Administrator for the NPS would be assisted by a national planning staff, as he is now.

AG 52-12: Advisory panels, consisting of representatives of academia, foundations, industry, SAES, councils, and so on, would advise the Administrator and the Deputy Administrator of research concerns and needs and would serve to coordinate national agricultural research.

Savings an Impact Analysis

The recommended reorganization would reduce ARS's administrative staff from 1,126 professionals to 525 (See Appendix for more details). In the process, some \$25.4 million in administrative costs would be saved annually, as shown in Table II-23.

Table II-23
Savings in Staff and Budget through Reorganization of ARS

	Staff Personnel		Budget \$ in Millions		
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>	<u>Saving</u>
Administrative and deputy offices	165	150	8.2	7.5	0.7
Administrative management	332	375	15.4	12.8	2.6
Regional offices	552	0	17.1	0	17.1
Area offices	77	0	5.0	0	5.0
Total	<u>1,126</u>	<u>525</u>	<u>\$45.7</u>	<u>\$20.3</u>	<u>\$25.4</u>

In addition the reorganization plan would:

- * Better focus the Agency and its funds on needed agricultural research rather than on administrative procedures. The ratio of administrators to scientists would drop from 2:5 to about 1:5.
- * Give headquarters staff much more direct control over the program content and quality of the research.

- * Enhance ARS' ability to respond to the broad regional and national mission with which it is charged.
- * Reduce line-staff friction.
- * Give NPS the authority as well as the responsibility to see that the ARS mission is properly discharged.
- * Enhance ARS' ability to recruit scientific talent.

Implementation

These recommendations, since they involve a rather profound change in the present structure of ARS, would have to be approved by the Secretary. It should be possible to begin immediately to initiate the changes and to complete the implementation by the beginning of the next fiscal year.

AG 53: Transfer Human Nutrition Research Programs to Health and Human Services (HHS)

Issue and Savings

Selected Agricultural Research Service (ARS) human nutrition research programs should be transferred to Department of Health and Human Services (HHS). Both the ARS and HHS will be in better positions to fulfill their respective missions, and an estimated \$15 million reduction in the ARS budget could be effected by 1984. This would be \$99 million over three years when all implementation is complete.

Background

Nine Federal departments and agencies support human nutrition research, with HHS being by far the largest contributor. In 1979, expenditures totalled \$195 million.

The majority of the U.S. Department of Agriculture's (USDA's) human nutrition research activities are conducted in five major ARS centers with a combined FY 1983 appropriation of \$24.3 million.

Methodology

Visits were made to the Human Nutrition Centers at Beltsville, Grand Forks, Houston, and Boston. Interviews were held with HHS and university staff. Reports of USDA, Office of Science and Technology Policy, Office of Technology Assessment, General Accounting Office, HHS, and the National Agricultural Research and Extension User's Advisory Board were reviewed. A medical consultant was retained to

visit the centers for technical assessment of their programs and operations.

Findings

The annual budget requirements of the five human nutrition research centers are expected to increase sharply over the next three years. The estimated 1986 requirements are about \$60 million, some \$36 million over 1983 appropriations, an estimated 150 percent increase.

The ARS programs appear to duplicate much larger and better funded nutrition research programs conducted by the National Institutes of Health (NIH) of HHS. Nutrition research is supported by 11 institutes and two divisions at NIH. The program funds focus nutrition research on human subjects from the prenatal stage to the elderly. NIH has 79 general clinical centers capable of performing human nutrition studies.

The effectiveness of the current and planned ARS human nutrition research programs has been seriously challenged by a variety of experts. Most recently, Robert K. Ausman, M.D., Ph.D., who was consulted by PPSS to review and assess the Boston Center, reported concerns centering around:

- * The lack of fit of the human nutrition research programs with the clearly established goals and mission of USDA and ARS
- * The cost of the research relative to value received and eventual diminution of funding for mainstream agricultural research
- * The effectiveness of goal setting and progress monitoring
- * Duplication with NIH projects.

The consensus among individuals interviewed by PPSS was that the greatly expanded programs in prospect within ARS Human Nutrition Centers determination of programs and needs, in planning, in coordination with other performers of research, and in the assessment of performance against the established goals. Moreover, the high costs involved in clinical research with human subjects and the uncertainty of assured and continued funding for such research in future years could jeopardize the important agricultural research mission of the ARS.

Conclusions

Much of the human nutrition research currently funded and controlled by ARS is inconsistent with its primary mission of "fundamental and applied research . . . to provide the means to solve the technical food and agricultural problems . . . to assure perpetually adequate supply of high quality food and fiber" The work conducted at the five human nutrition centers, particularly that involving human subjects, is an inappropriate activity for ARS.

Moreover, if the planned expansion of programs materializes, there will be a call for greatly increased expenditures in staff, facilities, and management talent and time.

Finally, the financial resources available to ARS for its total program will be severely strained in accommodating to the rapidly growing demands from the human nutrition sector of the Agency. The increased demands for this activity may come at great cost to other programs of higher priority in the overall ARS mission.

Recommendation

AG 53: Transfer and otherwise reduce ARS's role in human nutrition research programs involving human subjects, specifically--

- * Transfer responsibility and control of the centers at Houston and Boston from ARS to HHS.
- * Phase out or transfer the clinical components of programs involving human subjects at Beltsville and Grand Forks to HHS. The remaining programs and activities at Beltsville and Grand Forks would be retained.
- * Close the San Francisco center and divide its nutritional surveillance and other activities and programs between the centers at Beltsville and Grand Forks.

Savings and Impact Analysis

The ARS's appropriation requirements in 1986 would be some \$42 million less than currently planned levels. No doubt, NIH would retain some of the current/planned programs at the centers, and, therefore, savings in the ARS budget might be offset by increases at NIH. However, because of NIH's much broader role in human nutrition research programs, there would also be greater assurance that what funds are appropriated would be justified. (See Appendix for more details.)

Implementation

The Secretaries of Agriculture and HHS could implement the proposed transfer. In view of the magnitude of changes contemplated and the desirability of congressional review, timing would probably extend through FY 1985.

AG 54: Eliminate Funding for Twenty Programs

Issue and Savings

Twenty low-priority Cooperative State Research Service (CSRS) programs should be eliminated or their funds replaced by alternative sources. Annual savings of about \$11 million, \$36 million over three years, would result.

Background

The CSRS funds research programs of State Agricultural Experiment Stations (SAES). Some 100 such programs across the nation are currently funded by CSRS.

The SAES is complex--28,000 faculty members of land grant institutions at 450 sites are involved. The system represents the backbone of agricultural education and research in the United States. Sources of SAES funding are myriad--in addition to CSRS funding, other U.S. Department of Agriculture (USDA) agencies, other Federal agencies, and state, local, and private sources are involved. While sources of funding for any particular program are variable, SAES is an estimated \$850 million program, in aggregate.

Methodology

Data were obtained from two published sources: "Inventory of Agricultural Research--FY 1979" (CSRS, USDA, April 1982) and "Inventory of Research, Extension, and Higher Education Related to Food and Agriculture Conducted by Federal Agencies Other Than USDA, FY 1981" (Science and Education Administration, USDA, March 1982).

Findings

CSRS purportedly supports SAES programs that address areas specific to USDA goals. However, concerns were raised during interviews as to the appropriateness of CSRS funding for programs that could readily obtain funds from alternate sources, particularly the private sector; appear to be on the margin of usefulness in meeting USDA goals; and fall at the lower end of a prioritized program list, thus becoming first candidates for elimination in the event of budget constraints.

Table II-24--Twenty Programs Proposed for Elimination
(Dollars in Thousands)

Category Classification	CSRS	Other USDA	FY 1979 Funding Totals		Recommended Source of Obligation
			Other Fed	State	
408 Quality Maintenance in Storing and Marketing Field Crops	\$ 376	\$ 134	\$ 139	\$ 1094	Industry
409 Production of Animal Products with Improved Acceptability	1542	33	237	2490	Industry
508 Development of Domestic Markets for Farm Products	249	2	22	436	State/Industry
510 Group Action and Market Fever	130	53	12	255	State
511 Improvement in Ag Statistics	52	501	92	485	ESCS
512 Improvement of Grades and Standards of Forest Products	51	67	28	127	Industry
513 Supply, Demand and Price Analysis-Forest Products	87	57	0	116	Industry
602 Evaluation of Foreign Food Aid Programs	4	0	0	27	State/Aid
603 Technical Assistance to Developing Countries	17	296	117	559	State/Aid
604 Product Development and Marketing for Foreign Markets	12	0	2	36	Industry
703 Food Choices, Habits and Consumption	\$ 552	\$ 51	\$ 309	\$ 1114	Industry
704 Home and Commercial Food Service	251	6	149	490	Industry
705 Selection and Care of Clothing	280	0	13	720	Industry
707 Prevent Transmission of Animal Diseases and Parasites to Man	48	14	532	338	NIH/State
708 Human Nutrition	2001	139	3214	4764	NIH/State
802 Individual/Family Decision Making	754	7	186	1932	Industry
806 Individual/Family Adjustment to Change	896	52	73	1621	State
902 Outdoor Recreation	772	156	263	1372	Industry
905 Trees to Enhance Rural and Urban Environment	384	65	427	1340	Industry/State
990 Unclassified	2238	1004	2043	8040	Where Appropriate
20-Program Totals	10700	2637	7858	27356	\$50597
Percent of 20-program totals to total funding by source:	8%	14%	13%	7%	7%

Seventeen of the current CSRS programs represent only 3 percent of CSRS funding and, therefore, are likely candidates to be eliminated from funding. An additional three programs appear to be of a nature more appropriately funded by industry, NIH, or other appropriate agencies (see Table II-24 on following page).

In total, the 20 programs noted above received \$10.7 million of CSRS funding. However, this was only 8 percent of the total funding of these same programs, the balance having been funded by other sources, most notably from state or local (57%) and industry (6%) sources.

Conclusions

The 8 percent funding level provided by CSRS is insufficient to effectively influence the program objectives and ensure achievement of USDA goals. Elimination of CSRS funding for the 20 programs may be feasible without detriment to the programs. Required funding likely could be replaced, if warranted, by funding from alternative sources.

Recommendation

AG 54: Eliminate CSRS funding for the 20 programs listed in Table II-24 and notify SAES so that the programs may apply for funding from more appropriate sources.

Savings and Impact Analysis

A saving of \$10.7 million appears possible, assuming that the level of CSRS funding for the 20 programs remains today at the FY 1979 level, which is the latest available data on these programs. A partial saving may be appropriate if a closer examination of the "unclassified projects" identifies some of high priority to CSRS.

Implementation

The recommendation can be implemented by administrative action.

AG 55: Reduce and Redirect the Cooperative Extension Service (CES) Washington-Based Staff

Issue and Savings

The role of the Cooperative Extension Service's (CES's) headquarters staff should be limited to one of initiating new programs. This will allow a reduction in staff, saving \$4 million annually, or \$13 million over three years.

Background

The CES is an agency that is part of the Science and Education Administration within the U.S. Department of Agriculture (USDA). The CES was set up by Congress in 1914 to transfer technology originating in the State Agricultural Experiment Stations to the farmer. It has evolved into a network of youth and adult education serving the needs as expressed by county organizations, broadened beyond farming but still predominantly rural concerns.

In FY 1982, \$316 million was appropriated by Congress to CES. Approximately 24 percent of the funds were ear-marked by Congress for special programs.

CES' current organization consists of field line) as well as staff components. The field organization is represented by a Director of Extension located at each of the land grant colleges. The Director's responsibility is to set the program content based on priorities within the local, state, and Federal initiatives. Each county (approximately 3,100 in the United States) has an Advisory Board supported by Volunteer Councils in each of the five program areas. At present, some 500,000 volunteers are involved across the United States. The staff organization component consists of a Washington-based Program Development, Coordination, and Evaluation staff numbering 200 people, with a budget of \$12 million annually. The principal function of the national staff appears to be identifying new initiatives and establishing pilot projects in appropriate areas. An additional function of the national staff is providing liaison with other Federal departments as expressed in 20 inter-agency agreements.

Methodology

The Administrator and the Administrator's staff were interviewed. Urban and rural State Extension Service Directors and their staff were also interviewed.

Reports and reviews published by the General Accounting Office (GAO), the Association of Administrators of Home Economics, and the Agricultural Research Policy Advisory Committee and annual reviews of CES were read.

Findings

In 1981, GAO undertook a review of how CES programs were meeting their basic missions, the Federal role in administering the programs, and methods of evaluating and accounting for CES program activities. The following conclusions were reached:

- * GAO recognizes the desire for local programming flexibility but believes that it should be tempered with more Federal guidance on the overall parameters.
- * The Federal service has little involvement in the total extension program development process, including determining national program priorities.
- * The Federal service must assume a more active leadership role.

PPSS interviews confirmed the findings leading to the GAO conclusions. In particular, interviews indicated very little significant exchange between the field and the national staff. Program needs within the states appear to be resolved in meetings and discussions with neighboring states having a similar challenge. National program meetings in the field are infrequent.

Furthermore, field interviews by PPSS suggest that the challenges of 3,100 county problems are sufficiently different to frustrate any meaningful coordinated management of the programs, except for setting overall new program priorities.

Funding for CES programs comes predominantly from non-Federal sources--40 percent from states and 20 percent from local/county sources.

Conclusions

CES' Washington-based staff's role in proper coordination and development is ineffective and unnecessary. However, there remains a need for a new role in program initiation.

Recommendation

AG 55: Reduce and redirect the role of the Washington-based Program Development Coordination and Evaluation Staffing of CES, specifically

- * Eliminate some 50 positions responsible for coordinating state-driven extension programs.
- * Redirect the Washington-based staff to develop programs for those other Federal departments having extension funds.
- * Use the existing Land-Grant College Extension Service to administer the non-USDA Department funds, eliminating

the inefficiencies associated with a second and much smaller "extension" network.

Savings and Impact Analysis

A reduction of 50 in the Washington-based staff would result in a saving of \$3 million. The remaining staff will also administer the pass-through "extension-like funds" from other Federal agencies, notably the Departments of Energy and of Health and Human Services, which should permit a reduction in the staffs at these two agencies. Therefore, a ripple effect saving to the government might be an additional \$1 million.

The CES staff would continue to identify new initiatives and start pilot projects for all agencies. The impact on services to the public would be positive due to greater efficiencies and effectiveness.

Implementation

The reductions of CES staff could be implemented by the authority of the Secretary of Agriculture.

Obtaining "extension-like" pass-through funds from DOE and HHS would require interagency agreements and possibly congressional approval. Since Congress has requested CES to define its mission more accurately, it may be willing to transfer this authority.

H. RURAL ELECTRIFICATION ADMINISTRATION (REA)

Overview

The Rural Electrification Administration (REA) was established in 1936 to provide loans to eligible cooperative borrowers and to extend electric service to unserved, rural areas. The REA moved gradually into making loans to power supply cooperatives in addition to power distribution borrowers. Prior to 1973, the annual amount of long-term financing REA provided to power supply borrowers in a single year had not exceeded \$200 million. Following the Rural Electrification Act amendments of 1973, REA power supply borrowers had access to loan guarantees provided through the Federal Financing Bank (FFB) at a rate of one-eighth of 1 percent above the current market for U.S. Government obligations of comparable maturity. REA's lending programs moved from on-budget to off-budget status.

Since 1973, the amount of annual loan guarantees extended increased rapidly, doubling in cumulative amount outstanding from \$13.5 billion in FY 1978 to \$31.6 billion in FY 1980. From an overall Government perspective, the sheer magnitude of these guarantees (some 20% of FFB's off-budget lending at one point) has contributed to Government borrowing in the credit markets, exposed interest rates to upward pressures, and affected debt management policy. REA's off-budget status and that of other credit lenders has made control over the growth of Federal credit a more difficult task.

Ninety-nine percent of rural America now has electricity and telephones available. The REA is still making low-interest distribution loans and providing detailed regulations on what borrowers do. In addition, they have made some power-generation loans that have overruns and that are located in surplus power areas.

AG 56: Reduce Generation and Transmission Loans

Issue and Savings

The Government should begin extricating itself from loans for the generation and transmission (G&T) of power by reducing annual loan guarantees by \$1.7 billion by FY 1986

(i.e., from \$4.7 billion annually in 1983 to \$3.0 billion annually in 1986). This represents no budget cost savings but does represent a first step in reducing the dependence of Rural Electrification Administration (REA) borrowers on Federal financing. A loan guarantee fee of \$3 million should be put into effect as an offset against Agency obligations. Total three-year savings are \$10 million.

Background

The REA was established in 1936 to provide loans to eligible cooperative borrowers and for the purpose of extending electric service to unserved, rural areas. The REA moved gradually into making loans to power supply cooperatives in addition to power distribution borrowers. Prior to 1973, the annual amount of long-term financing REA provided to power supply borrowers in a single year had not exceeded \$200 million. Following the Rural Electrification Act amendments of 1973, REA power supply borrowers had access to loan guarantees provided through the Federal Financing Bank (FFB) at a rate of one-eighth of 1 percent above the current market for U.S. Government obligations of comparable maturity. REA's lending programs moved from on-budget to off-budget status.

Since 1973, the amount of annual loan guarantees extended increased rapidly, doubling the cumulative amount outstanding from \$13.5 billion in FY 1978 to \$31.6 billion in FY 1980. From an overall Government perspective, the sheer magnitude of these guarantees (some 20% of FFB's off-budget lending at one point) has contributed to Government borrowing in the credit markets, exposed interest rates to upward pressures, and affected debt management policy. REA's off-budget status and that of other credit lenders has made control over the growth of Federal credit a more difficult task.

In 1981, the Administration unsuccessfully attempted to remove REA and other borrowers from the FFB so that they could issue guaranteed debt directly into the markets. Instead, Congress required the Secretary of the Treasury and the FFB to make loan guarantee commitments available to REA power supply borrowers upon request. Further efforts to reduce the minimum level of electric supply loan guarantee commitments from \$5 billion in FY 1981 to \$3.6 billion in FY 1983 have been only marginally successful, since it appears that Congress will increase the requested minimum annual guarantee level in FY 1983 to \$4.7 billion.

With access to loan guarantees since 1973, REA power suppliers embarked on a large buildup of new plant and generating capacity, with nearly one-quarter of the additional

power being provided by nuclear facilities. Cost overruns for these facilities have mounted, requiring additional guarantee commitments. The current surplus of power supply in many service areas and the excessive cost of nuclear facilities have prompted investor-owned facilities to sell off capacity to power supply cooperatives and to seek joint financing for facilities yet to come on line.

The REA system has gradually become more self-sufficient in producing its own power to meet customer needs rather than purchasing that power from other, non-REA sources. REA-generated power in 1981 met 40 percent of the needs of its own customers, whereas in 1975, REA generation was meeting only 26.4 percent of its customers' needs. During this same period (i.e., 1975-1981), REA sales of power to non-REA customers (i.e., other than distribution cooperatives) rose from 8.8 percent of total sales to 15.5 percent of total sales. Another way of looking at REA's self-sufficiency in generation is the ratio of power purchased from other sources to total REA sales. In 1975, REA purchased (rather than generated) 30 percent of the power it sold, whereas in 1981, REA purchased only 20 percent of the power it sold.

The key interrelated issues in this section are:

- * Should the Government get out of the G&T financing business?
- * Are non-REA credit sources available and willing to lend to cooperative power suppliers?
- * How much capital will cooperative power suppliers require between 1982 and 1990, and how much of that can be provided by non-REA sources on what terms, conditions, and costs?

Methodology

Interviews have been conducted with a broad range of public officials inside and outside Government. Discussions have been held with energy experts, investment bankers, and credit analysts. In addition to REA data and information, hearings and reports from the Congress, the Congressional Budget Office, the General Accounting Office (GAO), the Office of Management and Budget (OMB), Cooperative Finance Corporation (CFC) and others have been reviewed.

Energy projections and needs have been analyzed from the perspective of the plausibility of their underlying assumptions and estimates. Alternative scenarios have been considered. To the extent possible, the "best evidence" rule has prevailed and assumptions stated with respect to

forecasts. Uncertainty about the electrical industry generally constrains definitive conclusions.

Findings

Nearly all extrapolations of energy data from the past to the future are tentative and revisable in light of recent events and trends.

Elasticities of demand based on REA's econometric models and other estimates generally understate consumer preferences under conditions of actual and anticipated energy cost increases.

The entire basis for REA power supply buildup should be reexamined in light of recent changes and trends. For example, (1) it takes less energy now to produce a dollar's worth of goods than it did a decade ago; (2) although growth and energy consumption may not be wed, as was once thought, electrical usage will continue to increase irrespective of growth rates as shifts continue away from gas and oil to electricity; (3) price elasticity of demand has proven far greater than was once assumed for energy generally, and for electricity specifically; (4) demand elasticities may be far greater than anticipated under conditions of rapidly rising rates; (5) CFC's estimates of load growth rates indicate far greater growth in the Southwest and West than anywhere else--a regional concentration of need for G&T loan expansion; and (6) the energy crisis of the mid-1970s changed much of the long-standing enmity between investor-owned and cooperative utilities as the latter became the source of financing, buy-ins, take-or-pay long-term contracts, and other forms of mutual agreements.

REA power suppliers have turned from buyers to sellers of energy, with the prospect of further increases based on joint ventures and other arrangements with investor-owned utilities.

REA has disposed of its total backlog of pending power supply loans and anticipates reduced new loan demand for the foreseeable future.

A major demand on loan guarantees comes from uncompleted projects and antideficiency loans due to cost overruns. REA gives highest priority to completing these projects where it is feasible to do so.

The financial condition of power supply borrowers as measured by "times interest earned" ratios (TIER) coverage and equity ratios has deteriorated. However, the underlying strength of these suppliers stems largely from their dis-

tributor cooperative members, who have varying degrees of financial strength.

A very limited market is available for G&T financing which is a function not only of the utilities' relative obscurity as creditworthy borrowers, but also the general inability of many utility borrowers to obtain long-term capital at reasonable rates. CFC is limited financially and politically by the National Rural Electric Cooperative Association from financing power supply borrowers. CFC's activities for G&Ts are restricted largely to pollution control and leverage leasing guarantees and to front-ending loans prior to actual drawdown of REA guarantees.

Conclusions

It is not unreasonable to forecast a 2.5 to 3.5 percent annual growth in load demand for REA power suppliers through 1990. Forecasts are based on numerous factors, including the relative strength of investor-owned utilities. At lower levels of demand and with increased purchase of power supplies from other available sources, REA power suppliers should be able to meet distributors' power demands through the 1980s. Given 7- to 10-year construction lead time, much concern turns on building now to meet the needs of the 1990s and beyond. Shortfalls may exist in certain regions and areas, compounded by potential fuel-related adjustments.

The Government cannot totally extricate itself from the G&T loan-making business due to the need to complete existing projects and to the fact that access to capital markets is not now available for REA G&T borrowers. A weaning and gradual phase-out strategy seems more appropriate.

General financial market access is not now available to G&T long-term borrowers except in special situations and for a limited number of large suppliers.

However, a substantial reduction in the annual loan guarantee limits can be justified based on slack demand for new loans, excess capacity in many areas, and the reworking of power sales agreements between REA borrowers and both Government and private industry suppliers.

Supplemental financing is a feasible and desirable goal.

Loan guarantees are not "costless" loans. In addition to the risk of delinquencies and defaults, the limited pool of available credit, when used for unnecessary or unproductive purposes, finances a lower rate of economic growth.

CFC and REA are working quite well together and are learning to complement one another on lending agreements and use of their respective powers and financing capacity.

Recommendations

AG 56-1: The REA annual loan guarantee level for electric borrowers should be reduced by 40 percent over the next four years from \$4.745 billion in FY 1983 to a target of \$3 billion by FY 1986.

AG 56-2: Power supply borrowers should be required to seek supplemental financing from non-REA sources. A ten percent outside financing would be appropriate as a general rule, but additional amounts could be required of larger suppliers, some of which are no longer tax-exempt organizations.

AG 56-3: A "credit elsewhere" test should be made prior to, and as part of, the overall REA loan guarantee process.

AG 56-4: REA should strengthen its loan guarantee criteria by compelling borrowers to go through uniform forecasting exercises to determine whether power supplies can be obtained elsewhere, rather than through new or expanded construction.

To assist borrowers in obtaining supplemental financing, REA must begin now to promote borrower financial strengths. Among other things, this means strengthening its lending criteria and administrative leverage. More than strengthening TIERS and equity ratios of power suppliers, the focus should be on distribution members--their TIERS, equity ratios, and long-term power purchase agreements with suppliers. Creditworthiness of G&T borrowers is really a function of the creditworthiness of distribution borrowers. Stop orders should be used more frequently when TIERS and debt service coverage fall below acceptable margins, and borrowers should be required to come up with acceptable management plans before financing is resumed.

In developing terms and conditions for supplemental financing, REA will have to develop more flexible loan arrangements with lenders as well as make stronger assurances regarding rate increases and in obtaining enforceable commitments from borrowers.

AG 56-5: REA should charge a loan guarantee fee of roughly \$3 million annually to cover the administrative costs associated with running the loan guarantee program.

Savings and Impact Analysis

Adoption of loan guarantee reductions would decrease off-budget lending outlays by an aggregate amount of \$3 billion to \$4 billion over the period FY 1983 to FY 1986. This reduction will not result in a quantifiable budget reduction, but it will reduce the unquantified risk of future defaults that would become budget outlays. Further, if new G&T facilities were not justified by anticipated demand, scarce capital would be redirected to more productive uses.

Loan guarantee fees would generate \$10 million over three years.

Implementation

Recommendations AG 56-1 and AG 56-5 require Congressional approval. The others can be accomplished under the control of the Administrator.

Additional Information

It should be noted that savings from changes in REA loan procedures will also be addressed by the cross-cutting PPSS Financial Asset Management Task Force.

AG 57: Reduce Government Financing of Cooperatives

Issue and Savings

The Rural Electrification Administration (REA) should expand the use of outside financing for electric distribution cooperatives by expanding supplemental lending ratios to 50-50, increasing insured loan rates to 8 percent, and strengthening borrower "times interest earned" ratios (TIER) and equity ratios. By charging a loan fee and by reducing REA borrowing from the Treasury, direct savings of \$10 million and a \$30 million cost avoidance will occur in FY 1984, or \$132 million over three years. A balanced Rural Electrification and Telephone revolving fund and repayment of \$7.8 billion in notes owed the Treasury beginning in 1993 will result in a cost avoidance of that amount after 1993.

Background

REA was established in the 1930s to provide Government loans to eligible borrowers for the purpose of extending electric service to unserved, rural areas. This mission was extended in 1949 for loans to telephone service.

REA built its program around, and helped form, nonprofit cooperatives whose number increased from several dozen at the onset to nearly 1,000 electric borrowers. From 1937 to 1944, electric borrowers were charged an interest rate slightly higher than that for marketable Treasury issues, roughly 2 or 3 percent. In 1944, a 2 percent interest rate was fixed by law, and the loan amortization period was stretched from 25 to 35 years.

In 1973, Congress overhauled this lending program in response to efforts by the Nixon Administration to phase out and consolidate the program under higher lending rates. Instead, Congress established two interest rates for REA borrowers depending on need, namely 2 percent and 5 percent, and created the Rural Electrification and Telephone Revolving Fund to replace the old direct loan subsidy program.

The Revolving Fund was capitalized with nearly \$8 billion in loans outstanding to REA borrowers from 1953 to 1973 by REA issuing interest-free notes for the above amount to Treasury, with Revolving Fund repayment of the principal to begin in 1993. The Revolving Fund was to be self-liquidating on a cash basis and to operate on an off-budget status, with lending ceilings established through the annual appropriations process. Additional funds would be provided to the Revolving Fund through REA borrowings from the Treasury in exchange for Certificates of Beneficial Ownership (CBOs) as loan collateral. The creation of this Revolving Fund separated electric power supply borrowers from electric distribution and certain telephone system borrowers. The former would be financed through Federal loan guarantees.

The 1973 amendments to the Rural Electrification Act further contained language to the effect that borrowers should be encouraged and assisted to develop their own resources and to satisfy their credit needs from their own financial organizations and other sources at reasonable rates and terms. The Act also specified that lending rates and terms be based on the applicant's ability to pay and achievement of the Act's overall objectives.

With successive amendments and through administrative action, all REA distribution borrowers have been brought to the 5 percent insured loan level, which means that 800 borrowers are required to obtain up to 30 percent of their loans from non-REA sources and another 140 borrowers are eligible for up to 90 percent of their loans from REA at 5 percent. With an annual lending flow of \$850 million and rising interest expenses paid to Treasury for CBOs, total interest expense in the Revolving Fund will soon exceed income and interest paid into the Revolving Fund from previous borrowers. Unless corrective steps are taken, the imbalance

will increase, with the result that the Revolving Fund will be depleted in the near future. In addition, the Revolving Fund is scheduled to repay Treasury \$7.8 billion in principal beginning in 1993 and owes another \$3 billion in CBO borrowings, with repayment scheduled in the year 2006. In 1981, some 28 percent of the loans being made to distribution borrowers have come from non-REA sources--an amount that has increased gradually over the preceding six years.

Methodology

Although assumptions and estimates differ for the projected financial requirements of power supply systems, a general consensus exists among REA, the National Rural Electric Cooperative Association (NRECA), the Cooperative Finance Corporation (CFC), and others concerning the capital requirements for distribution borrowers through 1990. Accordingly, estimates of capital availability and access to capital markets come from CFC, market analysts, and others. Information related to the Revolving Fund, borrower financial condition, and need comes from REA. Conclusions and recommendations follow from general findings.

Findings

Examination of demographic factors, income, and electric sales growth indicate greater growth in these factors among REA borrowers than in the past, increasing both electrical demand levels and the ability of consumers to pay.

The issue of who pays more for electricity--customers of investor-owned utilities or REA distribution borrowers--cannot be determined with certainty.

The Revolving Fund faces successive future crises that stem essentially from the interest-rate spread of borrowing from Treasury at a higher rate than that at which it lends to REA distribution borrowers. At current lending levels and high interest rates, interest expenses will exceed interest income by late 1985 or early 1986. In addition, the Revolving Fund is scheduled to begin repayment of interest-free principal of \$7.8 billion to Treasury in 1993, which is the amount of funds provided initially by Treasury in 1973 to capitalize the fund. Beginning in the year 2006, the Revolving Fund is also scheduled to repay Treasury \$3 billion in CBO principal--an amount that increases each year.

The \$7.8 billion interest-free capitalization of the Revolving Fund, conservatively estimated, runs more than \$300 million per year. Each \$1 million loaned by the Revolving Fund at the 5 percent insured level, for which the Fund borrows from the Treasury at 14 percent, carries a

\$3.74 million subsidy over the 35-year period of the loan. The amount of subsidy grows with the broadening interest-rate spread between Treasury borrowing and the REA lending rates.

REA loans are diminishing as a percentage of loans made to distribution systems. Outside or non-REA loans are currently available at reasonable rates and on reasonable terms. For example, the CFC has been able to meet most of the financial needs of distribution borrowers at rates generally about 100 to 150 basis points above Treasury's borrowing rates as long as borrowers meet CFC's lending standards.

REA lending criteria--constrained by "full use" and other statutory requirements--do not equate the "need" as gauged by rate comparability to other utilities or among REA borrowers, cost to consumers, or ability to pay (income).

The REA lending program, its criteria, and loan conditions provide a disincentive for borrowers to improve their financial condition. This is particularly the case for telephone borrowers. REA sanctions are not geared to reverse this situation.

Slippage in borrower TIERS and equity positions pose a threat to greater self-financing and to CFC's efforts to meet distribution borrowers' capital needs. A 1.5 TIER is the minimum required in the REA mortgage and common CFC mortgage. Some 20 percent of REA borrowers fell below the 1.5 TIER in 1981.

The off-budget status of REA insured loan program largely removes the Revolving Fund from budgetary control and obfuscates Revolving Fund transactions.

In FY 1983, the Administration recommended that the insured loan level be reduced by \$400 million to \$225 million for electric and \$175 million for telephone borrowers. In the case of electric borrowers this would have reduced their lending levels by 25 percent from FY 1982 levels--\$850 million to \$625 million. Instead, the Congress seems bent, as of late September 1982, on maintaining a floor of \$850 million and a ceiling of \$1.1 billion. More disturbing, however, is the action by the House Appropriations Committee, which in its committee report legislates REA policy by stating, "The Committee commends REA for maintaining stable ratios of concurrent and supplemental loans at current levels and will expect the Agency to continue ratios now in effect." If this language is not deleted or future language introduced to freeze lending ratios, the REA Admin-

istrator would have his administrative discretion greatly restricted in promoting supplemental financing.

Conclusions

Non-REA funding for distribution borrowers is available and can be expanded from borrowers' own sources, provided that REA and Congress reach this policy determination.

By increasing lending ratios from 70-30 to 50-50, the CFC and its affiliated cooperative membership will have the encouragement needed to expand CFC's equity base and to improve the financial position of members. So, too, REA interest rates on insured loans should be increased to 8 percent, and allowed to float thereafter depending on the steps necessary to achieve a Revolving Fund loan balance.

The condition of the Revolving Fund cannot be ignored by REA, NRECA, and the Congress. Necessary corrections should be made and loan forgiveness should be avoided.

The TIERS and equity ratios of REA borrowers should be strengthened over time and appropriate sanctions applied to noncompliance with loan agreements. CFC needs such strengthening to expand its capital base and to gain access to financial markets.

REA should be more aggressive in promoting mergers and consolidation among borrowers.

As lending ratios increase and as non-REA lending grows, the entire management focus of REA also should change. A new orientation suggests a more traditional lender-borrower relationship than the paternalistic relationship that now prevails between REA and its cooperative constituency.

Recommendations

AG 57-1: REA should develop a strategic plan that guides multiyear progress toward encouraging and promoting borrower self-sufficiency.

AG 57-2: REA should implement a 50-50 lending ratio within current full-use constraints and eliminate the special 90-10 ratio for 5 percent insured loans.

AG 57-3: REA should increase TIER levels and equity ratios of borrowers on an annualized basis with enforcement of sanctions against borrowers whose financial condition deviates from such standards.

AG 57-4: REA should increase the 5 percent insured loan level to 8 percent.

AG 57-5: The insured loan program's amortization periods should be shortened from 35 years to 25 years to increase the Revolving Fund's cash flow and to reflect shorter loan maturation schedules of non-REA lenders.

AG 57-6: A one-time loan fee of 1 percent should be charged to borrowers at the time loans are advanced to cover the \$10 million annual administrative cost associated with REA's insured loan program.

Savings and Impact Analysis

If a 50-50 lending ratio were adopted, CBO annual borrowings could be reduced from \$600 million to \$300 million. The cost avoidance, based on the opportunity-cost concept, would amount to \$30 million annually, based on a Treasury borrowing cost of 10 percent. Charging a loan fee should save \$10 million annually.

Implementation

These recommendations require Congressional approval.

Additional Information

It should be noted that savings from changes in REA loan procedures will also be reported by the cross-cutting PPSS Financial Asset Management Task Force.

AG 58: Reduce Regulation

Issue and Savings

The Rural Electrification Administration (REA) should reduce unessential regulation of and services for its borrowers. Savings in FY 1984 would be \$1 million, with \$3.3 million over three years.

Background

REA finances electric and telephone facilities in rural areas of the United States and its territories. Some 1,000 rural electric (power supply and distribution-transmission cooperatives) and 900 telephone utility systems received \$1.1 billion in 5 percent insured loans and \$5.2 billion in loan guarantees in FY 1981. Since the start of REA's loan programs in 1936, its borrowers have grown in size, customers served, electricity generated, and financial strength. REA electric distribution borrowers received 28 percent of

their financing from non-REA sources, and 5 percent of power supply loans came from supplemental sources in 1981.

After nearly 50 years, REA accomplished its primary mission of bringing electric and telephone service to unserved areas in rural America. Its successive mission of maintaining adequate service levels at reasonable rates through its subsidized lending programs means that borrowers will have to meet more of their financing needs from non-REA sources if adequate capital is to be available to match total system needs. Both REA and its borrowers recognize that they will have to redirect their operations if these goals are to be met.

The issue of overregulation goes beyond technical specifications and system standards to a range of REA services provided to borrowers that often sustain their dependency upon Government. REA's multiple roles and activities suggest a growing mismatch between REA's resources and those of the National Rural Electric Cooperative Association (NRECA) and the Cooperative Finance Corporation (CFC). Moreover, REA's technical regulation of borrowers on issues from materials used to equipment purchased goes far beyond traditional creditor-borrower relationships to the point of paternalism. System standards and protection of loan security need not be jeopardized by a less active REA role in all facets of its borrowers' operations.

Methodology

Extensive interviews were conducted throughout the agency, with the CFC and NRECA, and with other Government agencies. REA financial documents, publications, and regulatory material have been reviewed and analyzed from the vantage of balancing what is needed to make REA lending programs work efficiently and effectively and what seems to be of lesser importance to REA and borrowers alike.

Findings

Many of REA's borrower services duplicate and overlap with those provided by other Government agencies and those offered by the borrowers' trade association, for example, audit services, insurance review, and environmental review. Some are no longer needed and some are simply the borrower's responsibility, not REA's.

The NRECA and CFC charge members for separate services performed. They have the capacity and resources to perform a broadened range of services.

Conclusions

Less frequent audits, more targeting of audit resources, and less oversight of borrowers' total accounting systems would yield cost savings and more effective use of REA resources.

REA's standard specifications can be reduced, streamlined, and, in many detailed prescriptions, simply eliminated without impairing program standardization or REA loan security.

Several of REA's tasks and activities more appropriately characterize an agency and its constitutencies in an embryonic period of development rather than in the mature stage to which both have graduated. REA can no longer do some tasks well and others can be better performed elsewhere--research and development, testing, technology advancement.

One cannot very well redefine the borrower's relationships to its creditor without redefining the creditor's relationship to its borrowers. Deregulation and selective service reduction are critical to redefining REA's current and prospective roles.

Borrowers are far more concerned about other Government regulations than about those imposed by REA.

Overregulation exists in accounting and auditing systems, in materials specified in construction and operation, and in services that either are no longer necessary or simply perpetuate a borrower's dependency on the Government.

The CFC and NRECA can perform many of REA's existing activities. They will have to perform some as a result of increased CFC financing.

Substantial reductions in management services can be made without impairing REA's programs.

REA audits of a borrower's use of Government-supplied loans should be optional to the borrower--either made part of the loan fee schedule or conducted by outside auditors at a reduced REA loan fee schedule.

Spot audits should replace three-year borrower audit schedules. Audit resources can be better targeted to problem cases, with more attention devoted to power supply cost overruns. Many management-related activities are left to the borrower and its trade association.

REA should get out of material and product specification; move to a more managerial posture rather than narrow, technical involvement in borrowers' operation; and leave to other code- and standard-setting bodies many of these tasks.

A general mismatch exists between current REA staffing and resources and the specific tasks it attempts to fulfill.

Recommendations

AG 58-1: Reduce auditing and accounting division staff at headquarters level by 20 percent, or 10 people.

AG 58-2: Reduce or eliminate 15 positions in Management Services. Those tasks to be eliminated include labor relations, insurance, member services, community development, rate assistance, member data processing, and OSHA assistance. Reduced staffing includes the areas of civil rights, conservation, and general management assistance to borrowers. These tasks and responsibilities aggregate to 16-18 staff years, so a 15-person reduction in force is achievable.

AG 58-3: Eliminate research and development activities in telephone and electric divisions except as they relate to policy development and loan review.

AG 58-4: Reduce power supply lending personnel by six persons, due to reduced loan demand for new facilities, and reduce environmental review personnel by two.

AG 58-5: Reorganize tasks and responsibilities of the Engineering Standards and Telecommunication Engineering and Standards Division from the perspective of general management guidelines rather than engineering specific standardization of products, materials, and construction procedures.

Savings and Impact Analysis

In addition to loan fees, total identifiable savings for FY 1984 amount to \$1.0 million through a personnel reduction of 40 positions. Longer term savings that stem from more comprehensive reorganization of REA and reorientation of agency mission could yield multimillion dollar savings.

Implementation

Action on all recommendations can be made under existing authority of the Administrator.

III. SUMMARY LIST OF RECOMMENDATIONS

A. Farmers Home Administration (FmHA)

Agency Authority

AG 1: The loan obligations of the Farmers Home Administration (FmHA) should be reduced by implementing a policy of matching each new loan re-financed from the private sector with the "graduation" of an existing FmHA loan. FY 1983 loan obligations can be reduced by \$4.6 billion, interest subsidies of \$141 million can be recaptured, and \$91 million in staff savings can be realized by this change. This is \$768 million in savings over three years.

AG 6: Loan funds in Supervised Bank Accounts should be invested while awaiting disbursement. If interest-bearing accounts are used, estimated revenue to FmHA is approximately \$35.7 million per year, \$119 million over three years.

AG 2: Management information systems of FmHA should be improved to allow more effective management of the Agency and its loan portfolio, while reducing costs at the national office and the workload of field personnel. Estimated savings from improved management information are difficult to quantify but are in the order of \$18 million in reduced interest costs to the U.S. Treasury. In addition, savings from recommended reorganization are approximately \$673,000 per year. This totals \$63 million in savings over three years.

AG 7-1: FmHA collections from loan repayments can be accelerated and improved by decentralization. Annual interest and other cost savings of \$17 million, \$57 million over three years, and recovered delinquent principal and interest of \$44.1 million will result.

AG 7-2: Float arising out of cash collections of FmHA can be reduced through changes in current operating procedures if emphasis is redirected toward depositing the large-dollar/low-volume collections (county office payments) before the small-dollar/high-volume collections (direct payments). An estimated savings of \$8.2 million per year

could be achieved by the time decentralization is accomplished, amounting to \$27 million over three years.

AG 8: FmHA should collect a credit report fee from loan applicants. If a \$15 fee were to be collected, approximately \$7 million could be saved per year, \$23 million over three years.

Executive Authority

None.

Congressional Authority

AG 3: FmHA can limit growth in Government loan obligations, reduce delinquencies, control contingent liability, and save loan processing costs by (1) moving from direct lending to loan guarantees, (2) establishing a Certified Lender Program, and (3) using fixed-amount rather than percentage guarantees. In addition to an estimated \$475 million in increased principal and interest payments, \$116 million in loan processing savings could be realized while curtailing Government loan liability by \$19.65 million. This equals \$451 million over three years.

AG 4: FmHA can reduce delinquencies in farmer program loans, eliminate duplicated positions in the national office, and offer improved technical assistance and counseling to needy farm borrowers by transferring all FmHA housing programs to the Department of Housing and Urban Development (HUD). An estimated \$294 million per year in principal and interest payments, as well as \$29.4 million in reduced cost of borrowing, could be realized. An additional \$2.35 million savings per year are projected through reductions in national office personnel. This totals \$105 million over three years.

AG 5: FmHA and Small Business Administration (SBA) loan delinquencies can be reduced, duplications in national office staff overhead eliminated, and financial assistance/counseling to needy farm borrowers improved by eliminating duplication between FmHA and SBA. An estimated \$294.18 million per year in principal and interest payments could be realized, as well as \$29.4 million per year in reduced cost of borrowing. These savings are included in Issue AG 4. An additional \$2.22 million in savings is projected by means of personnel reductions. This totals \$7 million over three years.

B. Food and Nutrition Services (FNS)

Agency Authority

AG 10: The economies-of-scale adjustment factors in the Thrifty Food Plan (TFP) should be revised to be more in line with the Food Stamp Program perspectives. It is estimated that if the factors were adjusted to a level more representative of the program's nutritional objectives, there would be savings of \$252 million, or \$834 million over three years.

AG 15: The U.S. Department of Agriculture (USDA) should (1) negotiate long-term warehouse storage rates and (2) allow vendor bids on Agricultural Marketing Service commodity purchases to be on the basis of free on board (FOB) origin and/or FOB destination. The Department will save \$11 million annually and \$36 million over three years.

AG 12: The printing costs of Food Stamp Coupons can be reduced. over \$9 million can be saved each year, \$30 million over three years, by (1) redefining the makeup of the individual coupon book, (2) adopting a \$20 coupon denomination, (3) creating a \$100 coupon book, and (4) distributing loose \$1 coupons and eliminating the \$2 book. This would produce a reduction of 32 percent from the current \$28 million annual printing costs.

Executive Authority

None.

Congressional Authority

AG 9: The TFP maximum allotment should be updated annually to reflect the participant age and sex characteristics of the Food Stamp Program population. This change would save over \$1 billion in FY 1984, and about \$3.4 billion over three years.

AG 13: Federal free-lunch reimbursements should be automatically added to income calculations when determining Food Stamp Program eligibility and entitlement values. Eliminating this duplication of nutritional assistance would save more than \$500 million annually, or over \$1.725 billion for three years.

AG 14: Overlapping Child Nutrition entitlements should be added to income calculations in determining Food Stamp program eligibility and entitlement values. Eliminating

this duplication of nutritional assistance will save over \$160 million annually in the School Breakfast, Child Care Food, and Summer Food Service Programs. Over three years, savings amount to \$536 million.

AG 11: By eliminating the minimum monthly benefit of \$10 which is given to all one- and two-person households that minimally qualify for the Food Stamp Program, over \$41 million could be saved annually, or \$139 million over three years.

C. Agricultural Marketing Service (AMS)

Agency Authority

AG 20: The Agricultural Cooperative Service should assess user fees for publications and for technical assistance services performed for agricultural cooperatives. By charging user fees for publications and for technical assistance services rendered to existing cooperatives, budget authority could be reduced by \$1.5 million in FY 1983, or \$5 million in three years.

Executive Authority

AG 18: The present "triplication" of inspection of dairy plants (Grade A bulk, handling facilities, and milk manufacturing plants) by USDA, the Food and Drug Administration (FDA), and state agencies can be eliminated while maintaining the effectiveness of such inspections. By using state inspectors in all states, by merging the dairy plant inspection function of FDA into USDA, by reducing the number of Federal employees involved in dairy inspection and grading, and by extending the use of user fees to all dairy inspection functions, in FY 1983 (for USDA and FDA combined) budget authority could be reduced by \$4,385,000 and appropriated funds could be reduced by \$1.6 million, or \$5 million in three years.

Congressional Authority

AG 16: Federal appropriations for postmortem poultry inspection can be reduced while maintaining or increasing the effectiveness of such inspection. Savings would be \$93 million in FY 1983 and \$308 million over three years.

AG 17: By giving the Secretary of Agriculture discretion in determining the intensity of inspection of meat processing, a saving of \$8 million could be realized in FY 1984 and \$28 million in three years.

AG-19: Federal appropriations for the regulation of the marketing and labeling of meat and poultry products can be reduced, while maintaining or increasing the effectiveness of such regulations, by replacing premarket approval of labels with preuse filing of labels which would be automatically approved unless disapproved by the regional offices within 60 days. This could be done under comprehensive regulations and enforced by existing product-seizure authority. Budget savings in FY 1983 could be \$1 million and \$4 million in three years. More substantial savings would accrue to the industry and consumers.

D. Foreign and Domestic Commodity Programs

Agency Authority

AG 26: The payment of the Titles I and III ocean freight differentials should be administered more efficiently. There are potential savings through cost reductions of \$12 million per year, \$40 million over three years, if recipients are given incentive to negotiate lower rates on American carriers.

AG 24: The Foreign Agricultural Service's (FAS's) Cooperator Funding Program should be phased out. By gradually reducing funding the recipients who are capable of self-financing, some \$37 million could be saved in FY 1983, FY 1984, and FY 1985, with annual savings of \$24 million thereafter.

AG 29: Cost saving opportunities exist through elimination of duplication among the Economic Research Service, the FAS, and the World Agricultural Outlook Board. An estimated \$6.7 million a year could be saved, and \$22 million over three years, through a reorganization and consolidation of economic research/analysis efforts.

AG 27: USDA should not be involved in P.L. 480 freight forwarding activities. An estimated \$2.5 million annually, \$8 million over three years, can be saved by completely eliminating USDA's freight forwarding activities, transferring them to sponsoring agencies and to the private sector.

AG 28: The USDA should disband the Ocean Transportation Division. Savings of \$575,000 per year could be realized, or \$2 million over three years.

AG 31: The FAS should reduce the large and costly pool of U.S. nationals employed in secretarial service in foreign

countries. Some \$439,000 could be saved annually, \$1 million over three years, by limiting the use of U.S. nationals to situations where clear and compelling justification exists.

AG 32: The Agricultural Attache Service should be reorganized to make it more responsive to the objectives of the FAS. Although no direct savings can be calculated, indirect savings will result from a more efficient, smoother running organization.

AG 33: The Commodity Credit Corporation (CCC) and the FAS should do more credit analysis. Unknown, and perhaps unnecessary, risks are taken in the implementation of the Credit Guarantee Program (GSM-102). Savings cannot be measured, since they would be preventive. That is, with better credit analysis, loan defaults may be avoided.

AG 34: USDA should use the approximately \$175 million in funds appropriated for export promotion of U.S. agricultural goods by granting interest-free loans for a portion of foreign purchases. This would promote more purchases from the United States. No savings would result, but the U.S. farm economy would benefit.

Executive Authority

AG 22: CCC donations to other Government Agencies should be limited or eliminated. By eliminating discretionary donations and by requiring other agencies to use appropriated funds to purchase commodities from CCC, greater accountability will be established and an estimated \$364 million will be saved annually, or \$1.205 billion over three years.

AG 23: The costs of various interest buy-down programs currently being considered by USDA to subsidize U.S. agricultural exports should be reduced. Some \$262 million could be saved over the period FY 1983 through FY 1985 if CCC regulations are brought in line with those of other Government Agencies to permit commercial bank access to lower U.S. borrowing rates.

AG 30: The FAS should reduce or reorganize its representation in Europe. Some \$1.2 million can be saved annually, \$4 million over three years, and effectiveness can be increased by consolidating offices and reducing total representation to levels more consistent with the Agency's mission.

Congressional Authority

AG 21: Farmer price support programs should be restructured to reduce anticipated outlays and more effectively meet program objectives. Some \$4 to \$6 billion in anticipated outlays can be saved annually, \$13 billion over three years, by eliminating target prices, reducing support levels on major crops, and capping Farmer-Owned Reserve quantities at reasonable levels. These and other actions would effectively redirect Government's role in the farm economy from one of maintaining farm incomes to one of providing a safety net for producers in the event of substantial, sharp, short-term market declines. These savings are not included in the totals.

AG 25: Cargo preference compliance should not be continued for P.L. 480 shipments. Exempting P.L. 480 shipments from compliance with cargo preference requirements would save about \$108 million annually, \$357 million over three years. Moreover, if these funds were diverted toward increased commodity purchases under P.L. 480, the objectives of the program would be better met.

E. Local USDA Programs

Agency Authority

AG 37: The soil survey process should be improved to accelerate publication schedules and reduce costs. An estimated \$300.8 million could be saved over the life of the project, and the average elapsed time for completing a soil survey could be shortened by 46 percent. First year savings would be \$10 million, with \$20 million per annum to be saved thereafter. Over the years, savings would be \$50 million.

AG 36: The current implementation schedule for the automation of county offices should be accelerated by two years. The present value of savings to accrue after 1985 is about \$3 million.

AG 39: The Soil Conservation Service administration staffs at the level of the State and National Technical Centers should be consolidated to increase productivity and reduce costs. An estimated \$2.4 million could be saved in FY 1984, and \$5.7 million annually thereafter, or \$14 million over three years.

Executive Authority

AG 35: The structure of USDA county offices can be improved to reduce cost and improve effectiveness by collocating and consolidating Agriculture Stabilization and Conser-

vation Service, Soil Conservation Service, and Farmers Home Administration local offices. An estimated \$34 million could be saved in FY 1984, and \$194 million over three years.

Congressional Authority

AG 40: The procedure for electing the Agriculture Stabilization and Conservation Service county committees should be streamlined. Voter turnout could be increased and \$7.8 million could be saved annually beginning in FY 1983, \$26 million over three years, by making these changes.

AG 38: A user fee should be implemented to offset a portion of the cost of the soil survey program. An estimated \$4.0 million could be generated in FY 1983, and \$8.3 million annually thereafter, or \$21 million over three years.

F. Forest Service (FS)

Agency Authority

AG 41: A flat payment schedule should be implemented in contracting for timber sales. This change should increase revenue by \$146 million in the first year of implementation and \$460 million over three years.

AG 50: The Forest Service should reduce its staffing levels by transferring and consolidating functions, controlling costs, and instituting work measurement systems. The savings estimated from the reduction in staffing and related costs would be \$41 million in the first year and \$339 million over three years, after including \$45 million in one-time implementation costs.

AG 47: Decisions on expenditures in building and maintaining National Forest roads should be based on marginal economic analysis. An annual reduction of \$48 million in road construction costs and \$4 million in road maintenance costs would be obtained. This would amount to \$172 million over three years.

AG 42: The appraisal process for bidding should be changed to use the transaction evidence approach. This change would increase revenue by \$30 million annually, or \$99 million over three years.

AG 45: The FS should charge for firewood that is currently given away. This would generate over \$20 million annually and \$66 million over three years.

AG 46: Grazing fees should be increased. A change in the fee structure could generate an additional \$17 million annually or \$58 million over three years.

AG 43: The FS should adopt lump-sum sales procedures. Revenues would increase \$16 million annually and \$54 million over three years.

AG 48: The FS should improve its automatic data processing planning for a \$75 million distributed data processing system. This will ensure realization of savings amounting to \$13 million annually and \$43 million over three years.

AG 49: The FS should restructure its research activities to improve control, reduce costs, and enhance opportunities for greater private sector participation in research efforts. Over a three-year period, net savings of \$24 million are estimated.

Executive Authority

None.

Congressional Authority

AG 44: To obtain over \$38 million in additional annual recreation revenues, or \$125 million over three years, the Forest Service should (1) revise the requirements for charging user fees at recreation sites, (2) provide for extended access permits, (3) use volunteer workers to collect fees, (4) change the structure and formula for ski resort permit fees, (5) raise the charges for recreation homes, and (6) create better data collection systems for recreation fees.

G. Science and Education Administration

Agency Authority

AG 51: National objectives and missions for agricultural research should be established by organizing a National Board of Agriculture. Realignment of the current regions is also suggested. Annual savings would be \$76 million, or \$251 million over three years.

AG 52: The Agricultural Research Service should be reorganized to strengthen management effectiveness. Some \$25 million could be saved annually, \$83 million over three years.

AG 54: Twenty low-priority Cooperative State Research Service programs should be eliminated or their funding replaced by funding from alternative sources. Annual savings of about \$11 million, \$36 million over three years, would result.

AG 55: The role of the Cooperative Extension Service's headquarters staff should be limited to one of initiating new programs. This will allow a reduction in staff, saving \$4 million annually, or \$13 million over three years.

Executive Authority

AG 53: Selected Agricultural Research Service (ARS) human nutrition research programs should be transferred to the Department of Health and Human Services (HHS). Both the ARS and HHS will be better positioned to fulfill their respective missions, and an estimated \$15 million annual reduction in the ARS budget could be effected by 1984, or \$99 million over three years.

Congressional Authority

None.

H. Rural Electrification Administration (REA)

Agency Authority

AG 58: The Rural Electrification Administration (REA) should reduce unessential regulation of and services for its borrowers. Savings in FY 1984 would be \$1 million, or \$3 million over three years.

Executive Authority

None.

Congressional Authority

AG 56: The Government should begin extricating itself from generation and transmission loans by reducing annual loan guarantees by \$1.7 billion by FY 1986. This represents no budget cost savings but would reduce the Government's risk by shifting an aggregate of \$3-4 billion worth of loans to the private sector. A loan guarantee fee of \$3 million should be put into effect as an offset against Agency obligations. Total three year savings would be \$10 million.

AG 57: REA should expand the use of outside financing for electric cooperatives by expanding supplemental lending ratios to 50-50, increasing insured loan rates to 8 percent,

and strengthening borrower "times interest earned" ratios and equity ratios. By charging a loan fee and by reducing REA borrowing from the Treasury, direct savings of \$10 million and a \$30 million cost avoidance will occur in FY 1984, or \$132 million over three years. A balanced Revolving Fund and repayment of \$7.8 billion in notes owed the Treasury beginning in 1993 will result in a cost avoidance of \$7.8 billion after 1993.

IV. SUMMARY LIST OF SAVINGS

Agriculture Task Force Total Savings

<u>Functional Area</u>	<u>Savings (\$ millions)</u>	
	<u>1st Yr</u>	<u>3 Yrs</u>
A. Farmers Home Administration	\$481	\$1,593
B. Food and Nutrition Services	2,037	6,741
C. Agricultural Marketing Service	106	350
D. Foreign and Domestic Commodity Programs	559	1,938
E. Local USDA Programs	61	308
F. Forest Service	379	1,440
G. Science and Education Administration	131	482
H. Rural Electrification Administration	44	145
Total	\$3,798	\$12,998

Authority

Agency Authority	1,090	3,834
Executive Authority	474	1,769
Congressional Authority	2,234	7,394
Total	\$3,798	\$12,997

A. Farmers Home Administration Savings

<u>Issue</u>	<u>Description</u>	<u>Savings (\$ millions)</u>				<u>Authority</u>
		<u>1st Yr</u>	<u>2nd Yr</u>	<u>3rd Yr</u>	<u>Total</u>	
AG 1	Graduate Loans	\$232	\$255	\$281	\$768	A
AG 3	Certified Lender Program	136	159	165	451	C
AG 4	Transfer to HUD	32	35	38	105	C
AG 6	Invest Supervised	36	40	43	119	A
AG 2	Management Information	19	21	23	63	A
AG 7-1	Decentral Collect	17	19	21	57	A
AG 7-2	Decrease Float*	8	9	10	27	A
AG 8	Collect Credit Rpt Fees	7	8	8	23	A
AG 5	Duplication of SBA	2	2	3	7	C

<u>Authority</u>	<u>First Year</u>	<u>Total</u>
Agency Authority	311	1,030
Executive Authority	--	--
Congressional Authority	<u>170</u>	<u>563</u>
Total	\$481	\$1,593

*AG 7-2 is a quickly implementable interim step until AG 7-1 can be fully implemented; thus, to avoid double counting, savings are not included in totals.

B. Food and Nutrition Services Savings

<u>Issue</u>	<u>Description</u>	Savings (\$ millions)				<u>Authority</u>
		<u>1st Yr</u>	<u>2nd Yr</u>	<u>3rd Yr</u>	<u>Total</u>	
AG 9	TFP Family Makeup	\$1,040	\$1,144	\$1,258	\$3,442	C
AG 13	School Lunch Overlap	521	573	630	1,724	C
AG 10	TFP Economies of Scale	252	277	305	834	A
AG 14	Child Nutrition Overlap	162	178	196	536	C
AG 11	\$10 Minimum Benefit	42	46	51	139	C
AG 15	Commodity Distribution	11	12	13	36	A
AG 12	Coupon Printing	9	10	11	30	A

<u>Authority</u>	<u>First Year</u>	<u>Total</u>
Agency Authority	272	900
Executive Authority	--	--
Congressional Authority	<u>1,765</u>	<u>5,841</u>
Total	\$2,037	\$6,741

C. Agricultural Marketing Service Savings

<u>Issue</u>	<u>Description</u>	<u>Savings</u>		<u>(\$ millions)</u>		<u>Authority</u>
		<u>1st Yr</u>	<u>2nd Yr</u>	<u>3rd Yr</u>	<u>Total</u>	
AG 16	Poultry In- spection	\$93	\$102	\$113	\$308	C
AG 17	Meat & Poultry Processing	8	9	11	28	C
AG 18	Dairy Inspec- tion	2	1	2	5	E
AG 20	AG Cooperative User Fees	2	1	2	5	A
AG 19	Label Approval	1	1	2	4	C

<u>Authority</u>	<u>First Year</u>	<u>Total</u>
Agency Authority	2	5
Executive Authority	2	5
Congressional Authority	<u>102</u>	<u>340</u>
Total	\$106	\$350

D. Foreign and Domestic Commodity Programs Savings

Issue	Description	Savings (\$ millions)				Authority
		1st Yr	2nd Yr	3rd Yr	Total	
AG 21	Crop Support*	\$4,000	\$4,400	\$4,600	\$13,000	C
AG 22	Agency Donations	364	400	441	1,205	E
AG 25	Cargo Preference	108	118	131	357	C
AG 23	Export Financing	58	94	110	262	E
AG 26	Freight Differentials	12	13	15	40	A
AG 24	Cooperator Funding	6	12	19	37	A
AG 29	ERS, S Duplication	7	7	8	22	A
AG 27	Freight Forwarding	2	3	3	8	A
AG 30	European Representation	1	1	2	4	E
AG 28	Disband OTD	1**	1**	1	2	A
AG 31	Secretarial Pool	**	**	**	1	A
AG 32	Reorganizing FAAD	--	--	--	--	A
AG 33	Credit Evaluation	--	--	--	--	A
AG 34	Export Funds	--	--	--	--	A

Authority	First Year	Total
Agency Authority	28	110
Executive Authority	423	1,471
Congressional Authority	<u>108</u>	<u>357</u>
Total	\$559	\$1,938

*Note: Not included in totals (see Executive Summary).

**Less than \$1 million.

E. Local USDA Programs Savings

<u>Issue</u>	<u>Description</u>	<u>Savings (\$ millions)</u>				<u>Authority</u>
		<u>1st Yr</u>	<u>2nd Yr</u>	<u>3rd Yr</u>	<u>Total</u>	
AG 35	USDA Consoli- dation	\$34	\$67	\$93	\$194	E
AG 37	Soil Survey Costs	10	20	20	50	A
AG 40	County Elections	8	9	9	26	C
AG 38	Soil Survey User Fees	4	8	9	21	A
AG 36	Office Automation	3	0	0	3	A
AG 39	Consolidate SCS	2	6	6	14	A
<u>Authority</u>		<u>First Year</u>		<u>Total</u>		
Agency Authority		19		88		
Executive Authority		34		194		
Congressional Authority		8		26		
Total		\$61		\$308		

F. Forest Service Savings

<u>Issue</u>	<u>Description</u>	<u>Savings (\$ millions)</u>				<u>Authority</u>
		<u>1st Yr</u>	<u>2nd Yr</u>	<u>3rd Yr</u>	<u>Total</u>	
AG 41	Timber Sales Cash Mgmt	\$146	\$153	\$161	\$460	A
AG 50	Staffing Levels	41	132	166	339	A
AG 47	Road Program	52	57	63	172	A
AG 44	Recreation Fees	38	42	45	125	C
AG 42	Timber Appraisal	30	33	36	99	A
AG 45	Firewood Review	20	22	24	66	A
AG 46	Grazing Fees	17	19	22	58	A
AG 43	Lump Sum Sales	16	18	20	54	A
AG 48	ADP Planning	13	14	16	43	A
AG 49	Research Activ- ities	6	8	10	24	A

<u>Authority</u>	<u>First Year</u>	<u>Total</u>
Agency Authority	341	1,315
Executive Authority	--	--
Congressional Authority	<u>38</u>	<u>125</u>
Total	\$379	\$1,440

G. Science and Education Administration Savings

<u>Issue</u>	<u>Description</u>	<u>Savings (\$ millions)</u>				<u>Authority</u>
		<u>1st Yr</u>	<u>2nd Yr</u>	<u>3rd Yr</u>	<u>Total</u>	
AG 51	National Board	\$76	\$83	\$92	\$251	A
AG 52	Reorganize ARS	25	28	30	83	A
AG 53	Research to HHS	15	42	42	99	E
AG 54	Twenty Programs	11	12	13	36	A
AG 55	Redirect CES	4	4	5	13	A

<u>Authority</u>	<u>First Year</u>	<u>Total</u>
Agency Authority	116	383
Executive Authority	15	99
Congressional Authority	--	--
Total	\$131	\$482

H. Rural Electrification Administration Savings

<u>Issue</u>	<u>Description</u>	<u>Savings (\$ millions)</u>				<u>Authority</u>
		<u>1st Yr</u>	<u>2nd Yr</u>	<u>3rd Yr</u>	<u>Total</u>	
AG 56	G & T Loans	\$ 3	\$ 3	\$ 4	\$ 10	C
AG 57	Cooperative	40	44	48	132	C
AG 58	Over-Regulation	1	1	1	3	A

<u>Authority</u>	<u>First Year</u>	<u>Total</u>
Agency Authority	1	3
Executive Authority	--	--
Congressional Authority	43	142
Total	\$44	\$145

V. COST CONTROL OPPORTUNITIES FOR FURTHER STUDY

Cost control opportunities warranting further study, to the extent they exist, are incorporated in other pertinent sections of this Task Force Report. Because some of these opportunities were interwoven with certain issue/recommendation summaries, they are presented there in an integrated fashion, rather than as stand-alone opportunities in this section of the Task Force Report.

VI. TASK FORCE MEMBERSHIP

<u>Name</u>	<u>Company</u>
Clifton B. Cox -- Project Manager	Cox, Lloyd Associates, Ltd.
Kathleen S. Bitterman	Archer Daniels Midland
Bartley P. Cardon	University of Arizona
Thomas G. Cody	Thomas Cody & Associates
Mary B. W. Coe	Continental Grain Company
Abelardo S. Curdumi	First National Bank of Chicago
Douglas J. DeMartin	Ernst & Whinney
Richard D. Donoghue	Ernst & Whinney
Paul C. Fiduccia	Winston & Strawn
Michael E. Fitch	Wells Fargo Bank
Ross W. Gorte	Consultant
John S. Grimshaw	Arthur Andersen & Company
Donald H. Haider	Northwestern University
Bill L. Harriott	FMC Corporation
Augustin S. Hart, Jr.	Quaker Oats (retired)
Gerald F. Heisinger	Dart & Kraft, Inc. (retired)
Daniel T. Kaschak	Quaker Oats
Gregory A. Knott	Deere & Company
Robert W. Kohlmeier	Cargill Inc.
A. J. Marcussen	R. R. Donnelley & Sons Company
Paul E. Marsh	Northern Trust Company
William E. Marshall	General Foods Corporation
John E. Mathews	Baxter Travenol Labs, Inc.
Horst J. Metz	Booz, Allen & Hamilton, Inc.
Karl H. Ottolini	Alexander Grant & Company
Allan Jeff Reinking	Arthur Andersen & Company
Ian A. Schapiro	Bank of California
John A. Stewart	International Minerals & Chemicals Corporation